

FEDERAL TAXATION—PAST, PRESENT, FUTURE



Congressional Digest

Washington, D. C.

VOL. II

SEPTEMBER, 1923

No. 12

OUR FEDERAL TAX SYSTEM

HOW THE CONSTITUTION AND CONGRESS HAVE BUILT UP
OUR TAX SYSTEM

THE ADMINISTRATION OF OUR PRESENT TAX LAWS

BY THE DIRECTOR OF CUSTOMS
BY THE COMMISSIONER OF INTERNAL REVENUE

SECRETARY MELLON'S RECOMMENDATIONS FOR TAX REVISION

THE PROS AND CONS OF THE TAX CONTROVERSY

By
MEMBERS OF CONGRESS, TAX EXPERTS, BANKERS, ECONOMISTS,
FARMERS, BUSINESS, AND LABOR

TAXATION AND POLITICS

ADDITIONAL FEATURES

50c. a Copy		\$5.00 a Year
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The Congressional Digest

Published the Fourth Saturday of Every Month

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ALICE GRAM ROBINSON, Editor and Publisher

EDITORIAL OFFICES, MUNSEY BUILDING, WASHINGTON, D. C.

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Entered as Second-Class Matter September 26th, 1921, at the Post Office at Washington, D. C. Under the Act of March 3, 1879.

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THE CONGRESSIONAL DIGEST

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Financing the Federal Government What the Constitution Provides

PUBLIC finance in the Constitution, which became the fundamental law of the nation in 1789, is especially provided for in the clauses governing taxation, loans, coinage, appropriations, and accounts. The following articles deal explicitly with these subjects:

TAXATION

Art. I, Sec. 8, Par. 1.—"The Congress shall have power to lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the common defence and general welfare of the United States; but all duties, imposts, and excises shall be uniform throughout the United States."

Art. I, Sec. 9, Par. 4.—"No capitation, or other direct, tax shall be laid, unless in proportion to the census or enumeration herein-before directed to be taken."

Art. I, Sec. 9, Par. 5.—"No tax or duty shall be laid on articles exported from any State."

Art. I, Sec. 9, Par. 6.—"Nor shall vessels bound to or from one State be obliged to enter, clear, or pay duties in another."

Art. I, Sec. 10, Par. 2.—"No State shall, without the consent of the Congress, lay any imposts or duties on imports or exports, except what may be absolutely necessary for executing its inspection laws; and the net produce of all duties and imposts, laid by any State on imports or exports shall be for the use of the treasury of the United States; and all such laws shall be subject to the revision and control of the Congress. No State shall, without the consent of Congress lay any duty of tonnage."

INITIATIVE OF REVENUE BILLS

Art. I, Sec. 7, Par. 1.—"All bills for raising revenue shall originate in the House of Representatives; but the Senate may propose or concur with amendments, as on other bills."

LOANS

Art. I, Sec. 8, Par. 2.—"The Congress shall have power] "to borrow money on the credit of the United States."

COINAGE

Art. I, Sec. 8, Par. 5.—"Congress shall have power] "to coin money, regulate the value thereof, and of foreign coin."

INDEBTEDNESS

Art. VI, Sec. 1, Par. 1.—"All debts contracted and engagements entered into before the adoption of this Constitution shall be as valid against the United States under this Constitution as under the Confederation."

APPROPRIATIONS

Art. I, Sec. 9, Par. 6.—"No money shall be drawn from the treasury but in consequence of appropriations made by law."

Art. I, Sec. 8, Par. 12.—"Congress shall have power] "to raise and support armies, but no appropriation of money to that use shall be for a longer term than two years."

ACCOUNTS

Art. I, Sec. 9, Par. 6.—"A regular statement and account of the receipts and expenditures of all public money shall be published from time to time."

RESTRICTION ON STATES

Art. I, Sec. 10, Par. 1.—"No State shall coin money; emit bills of credit; make anything but gold and silver coin a tender in payment of debts."

TAXES ON INCOMES

Amendment, XVI.—"The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration."

Taxation the First Concern of the New Government

BEFORE the new federal government was fairly organized it had to settle three fundamentally important financial questions: a revenue must be secured; machinery for the administration of the finances must be established; and provision must be made for the debt already accrued. Of these problems the most immediate was the provision for a revenue, and on April 8, 1789, even before the inauguration of the president or the establishment of a treasury department, Madison laid the subject before the House of Representatives.

By common expectation taxation was to be first applied to foreign trade; the country was by its political training averse to internal taxation; local taxes fell largely on property; export taxes were prohibited; and direct taxes could not be laid until an enumeration of the population had been finished. The situation admitted of no delay; the spring importations would shortly reach port; and therefore Madison proposed "such articles of requisition only as are likely to occasion the least difficulty."

As soon as the revenue bill had been sent over to the

Senate, the House immediately began to consider the establishment of a treasury department.

The final enactment of the bill of 1789 provided that there shall be a department of the treasury in which there shall be a secretary of the treasury, who shall be the head of the department. This secretary was to digest and prepare plans for the improvement and management of the revenue and the support of the public credit, to report budget estimates, to superintend the collection of revenue, to decide on forms of keeping accounts, and to execute the laws relating to the sale of public lands. This legislation further places the treasury department in a specially intimate relationship to Congress, independent of the president, by prescribing that a call for financial information be made directly to the treasury department without going through the president.

Besides providing for a secretary, the law authorized the appointment of a comptroller, auditor, treasurer, register, and an assistant to the secretary to be appointed by the secretary. The number of comptrollers and auditors has been increased with the growth of the treasury business, but the titles, duties, and relations of the above officers have practically remained unchanged.

The president appointed Alexander Hamilton secretary of the treasury, September 11, 1789.

Although a revenue bill had been passed before his appointment, Hamilton was well in touch with the needs of the country and immediately displayed a most vigorous initiative. As secretary he prepared many reports.—

Extract Dewey. See p. 359.

How Congress Has Built Up Our Tax System

History of Internal Revenue Legislation *

POST REVOLUTIONARY PERIOD, 1791-1802

THE first period in which internal taxes were used for the support of the government extended from 1791 to 1802. These taxes were on carriages, sugar, snuff, bonds, distilled spirits, etc. The direct tax on property was levied only once during this period.

1791—The first internal revenue act, of March 3, 1791, provided for the creation of fourteen revenue districts, one for each state, and the appointment of a supervisor in each one for the collection of the taxes. The President was authorized to fix the salaries of the supervisors and inspectors.

One result of the tax on distilled spirits was the "Whiskey Insurrection" in Western Pennsylvania in 1794. The outcome of this insurrection was to demonstrate that the federal government could command sufficient power to enforce its laws.

1798—The act of July 9, 1798, set up machinery for the valuation of lands and dwellings and the enumeration of slaves, but did not levy the tax.

Collectors of internal revenue were first authorized by the act of July 16, 1798. These collectors were appointed by and subordinate to the supervisors. On May 8, 1792, there was created the office of "Commissioner of the Revenue" to take the place of the assistant to the Secretary of the Treasury.

1800—A general stamp office, in charge of a superintendent of stamps was created by the Act of April 23, 1800.

1802—The Act of April 6, 1802, which abolished the internal taxes, also abolished all offices having to do with them.

WAR OF 1812 PERIOD, 1813-1817

The War of 1812 again made it necessary to have recourse to internal taxes, and a number were levied and subsequently abolished during this period.

1813—The Act of August 2, 1813, reviving the direct tax, provided for a single levy of \$3,000,000 which was apportioned not only by states but by counties.

As internal taxes had not been levied for over ten years it was necessary again to create machinery for their collection. The act of July 22, 1813, provided for the division of states into collection districts and the appointment of a collector and principal assessor in each district and revived the office of commissioner of the revenue.

1817—With the discontinuance of the internal taxes by the Act of December 23, 1817, the office of commissioner of the revenue and the offices of collectors were abolished.

CIVIL WAR PERIOD

No internal taxes of any character were levied by the United States from 1817 until the outbreak of the Civil War.

1861—The first internal revenue act of this period was that of August 5, 1861, which provided for a direct tax of \$20,000,000, apportioned among the states, and an income tax, in addition to increasing the customs duties on certain classes of imports. This Act provided for a "Commissioner of Taxes" to supervise the collection of the direct tax and income tax, and for collectors.

THE FOUNDATION OF THE PRESENT SYSTEM

1862—The Act of July 1, 1862, is the basis of the present internal revenue system, both as regards objects taxed and organization for collecting the taxes. The Act created the office of Commissioner of Internal Revenue. The Commissioner, under the direction of the Secretary of the Treasury, was charged with the preparation of all instructions and regulations necessary to carry out its provisions, and his general duties are the same today.

In 1866 there were 135 inspectors of all classes, and within a few years the total number had risen to 1099. The appointment of these various inspectors was subject to the pleasure of the assessor or collector to whom they reported. Their compensation was in the nature of a fee which was paid by the manufacturer of the package inspected. The Act of June 30, 1864, gave them a compensation of \$4 per day and an allowance for traveling expenses. The fee system was restored in 1866.

The offices of assessors and assistant assessors were abolished on July 1, 1873.

Acts of 1863 and 1864—The position of deputy commissioner of internal revenue was created by the act of March 3, 1863, which also authorized the Secretary of the Treasury to appoint three revenue agents to aid in the prevention, detection, and punishment of fraud upon the revenues and fixed the salaries of the assessors.

On June 30, 1864, a new law relating to internal taxes was enacted. Many of the rates were changed and additional taxes imposed, but there were no marked changes in organization or administration. The most important change of administrative importance was the one providing for the payment to the collectors of a salary of \$1500 and in addition a commission on collections.

Revenue Commission of 1865—The Act of March 3, 1865, made still further changes in the rates and objects taxed, but

*A brief sketch of the History of Tariff Legislation was printed in the May, 1922, number of the CONGRESSIONAL DIGEST.

THE CONGRESSIONAL DIGEST

made no alteration in methods of administration except to limit the commissions of collectors.

PERIOD BETWEEN CIVIL AND SPANISH AMERICAN WARS

1866—The Act of July 13, 1866, reduced many of the internal revenue taxes and provided a definite personnel. This act also marked the beginning of the stamp tax on alcoholic liquors.

LEGISLATION FROM 1867 TO 1883

1867—The Act of March 2, 1867, further reduced the internal taxes, but made no changes in methods of administration.

1868—The Act of July 20, 1868 developed the stamp taxes on liquor and tobacco. The Act of March 3, 1883 repealed all the internal taxes with the exception of those on tobacco products, distilled spirits, and fermented liquors, and on dealers in these commodities.

During this period there were also some changes in administration.

1872—The Act of December 24, 1872, abolished the office of assessor and transferred his duties to the collector.

1879—In 1879 provision was made for the payment of the salaries of deputy collectors by the government, and a change was made in the collectors' salaries. This provision for collectors' salaries remained in force until the passage of the Act of February 24, 1919.

Whiskey Frauds, 1864-1875—One of the most serious problems confronting the officers of the Bureau of Internal Revenue from its very inception was that of fraud and evasion. Scarcely six months had elapsed from the date on which the first law went into effect when Congress passed the act of March 3, 1863, to prevent and punish frauds upon the revenue.

1886—The Act of August 2, 1886, imposing a tax on oleomargarine, was not primarily designed as a revenue producer, but was passed to prevent oleomargarine from competing with butter. The rates of the tax were changed by the Act of May 9, 1902.

1890—The McKinley Act of October 1, 1890. This Act, which introduced many changes in the laws relating to internal revenue, affected the procedure but not the organization of the Bureau.

The most important feature of the McKinley Act, as regards the Bureau of Internal Revenue, was the provision allowing a bounty on sugar obtained from beets, sorghum, or sugar cane grown in the United States, and providing that the bounty should be determined by the Bureau of Internal Revenue.

The bounty provisions were administered by the Bureau under protest by the Commissioner until the repeal of the law, August 28, 1894.

1894—The Income Tax of 1894. The Wilson Tariff Act of 1894 contained many features pertaining to the internal revenue. It revived the income tax which had last been imposed in 1861.

1895—Under the Act of January 25, 1895, was organized an Income Tax Revision in the Bureau of Internal Revenue. The work of the entire Income Tax Division was terminated May 20, 1895, when upon a rehearing of the income tax case before a full bench of the Supreme Court it was finally decided that the whole income tax law was unconstitutional on the ground that it was a direct tax, and was not apportioned among the states in conformity with the Constitution.

1896—Tax on Filled Cheese. Another tax designed to be prohibitory was that on filled cheese and manufacturers and dealers in this commodity imposed by the act of June 26, 1896.

SPANISH-AMERICAN WAR PERIOD

From 1896 to the outbreak of the Spanish-American War, no legislation of any importance was enacted.

1898—The Act of June 13, 1898, increased the tax on fermented liquors and tobacco products, imposed taxes on legacies, mixed flour, etc. The tax on mixed flour, still in force, was intended to be a regulatory and not a revenue tax.

1901—Some of the taxes were reduced and others abolished by the Act of March 3, 1901, and all of the other new taxes except the one on mixed flour were repealed by the Act of April 12, 1902.

PERIOD BETWEEN THE SPANISH-AMERICAN AND THE WORLD WAR

1906—After the repeal of the Spanish-American War taxes there was little legislation of consequence until the passage of the denatured alcohol Act of 1906, which provided for the withdrawal from bond, tax free, of domestic alcohol which had been rendered unfit for beverage or liquid medicinal use by mixing it with suitable denaturing materials. It was amended by the Act of March 2, 1907.

1909—Corporation Tax. Congress included in the Tariff Act of August 5, 1909, a tax of 1 per cent on the net income in excess of \$5000 of corporations. This law continued in force until 1913.

1912—Tax on White Phosphorus Matches. On April 9, 1912, an Act was passed levying a tax on white phosphorus matches, which was successfully designed to be prohibitive of their manufacture.

1913—Income Tax. The Sixteenth Amendment to the Constitution, which went into effect February 25, 1913, authorized the levying of an income tax. On October 3, 1913, Congress enacted the income tax law, which imposed a tax on the net income of both individuals and corporations. This law repealed the 1909 excise tax on corporations. Immediately after the passage of the Act of October 3, 1913, the work of organizing the Personal Income Tax Division was begun.

1914—On January 17, 1914, two Acts were passed relating to opium. One regulated the importation of opium. The second Act repealed the portion of the McKinley Act relating to smoking opium produced in the United States, and increased the tax and raised the bond required of manufacturers.

Emergency Revenue Act of 1914—For a period of nearly fifty years, distilled spirits, fermented liquors, and tobacco were the main sources of revenue, but immediately after the outbreak of the war, it became evident that Congress would be called upon to enact emergency legislation to provide for additional internal revenue. An emergency revenue bill was introduced in the House of Representatives on September 21, 1914, which provided for the raising of \$105,000,000 additional revenue from internal sources. The bill became a law on October 22, 1914, and was a temporary measure, being virtually a reenactment of the Spanish-American War Revenue Act. The Act of October 22, 1914, was repealed September 8, 1916, excepting Sections 3 and 4, imposing special taxes, which remained in force until January 1, 1917.

1916—Omnibus Revenue Act of 1916. In addition to repealing the Act of October 22, 1914, it amended the income tax law by imposing a surtax and doubling the normal tax rate, and modified some of the minor and administrative measures. It reenacted the Act of 1914 relating to theatres, bowling alleys, and places of amusement, tobacco manufacturers and dealers; imposed a munition manufacturer's tax; and provided a capital stock tax. Dealers in tobacco were relieved from special taxes on and after January 1, 1917, and new rates were imposed upon manufacturers of cigars, tobacco, and cigarettes. It levied a tax on inheritances or

legacies, called the estate tax, and provided for a tax on the transfer of the whole estate, after deducting the necessary administration expenses, debts, and other charges and providing for an exemption of \$50,000 for residents of the United States. An Estate Tax Division was organized in the Bureau of Internal Revenue shortly after the law was passed.

The Revenue Act of September 8, 1916, provided that every person manufacturing munitions or war implements should pay, in addition to the income tax imposed by Title I of the same act, for each taxable year an excise tax of "12½ per cent upon the net profits actually received or accrued from the sale or disposition of such articles manufactured within the United States."

The capital stock tax, levied by the Act of September 8, 1916, is still on the statutes.

1917—On March 3, 1917, an Act imposing an excess profits tax was enacted. In addition to the taxes imposed by the then existing laws, this Act levied a tax of 8 per cent on so much of the net income of corporations, joint stock companies, etc., as was in excess of \$5,000, plus 8 per cent of the actual capital invested in the property or business. The Act was made effective January 1, 1917.

War Revenue Act of 1917—Was approved October 3, 1917, and was amendatory and supplementary of the Acts of October 3, 1913, September 8, 1916, and March 3, 1917. The Act was divided into thirteen parts dealing with the following subjects: (1) Income; (2) excess profits; (3) beverages; (4) cigars, tobacco and tobacco manufacturers; (5) public utilities and insurance; (6) excises; (7) admission and dues; (8) stamp taxes; (9) estate taxes; (10) administrative provisions; (11) postal rates; (12) income tax amendments; and (13) administrative provisions. It was particularly difficult to administer because it amended and continued in force parts of many earlier acts.

It caused a complete reorganization of the administrative forces of the Bureau.

1918—*War Revenue Act of 1918*. On June 6, 1918, the Secretary of the Treasury recommended that an additional eight billion dollars be raised. A bill introduced on September 3, 1918, designed to provide taxes which would produce a revenue of over \$8,000,000,000, passed the House on September 20, 1918. Before it was acted upon by the Senate, the Armistice was signed and a change in the financial policy was necessary. The House bill was rewritten and passed. It was signed by the President on February 24, 1919, and became effective the following day, although it was retroactive and some of its most important features related to income and profits realized in the calendar year 1918.

While the Act changed the rates for many taxes it was essentially a codification of existing law, as it repealed all the earlier acts and brought within a single law all the provisions for income, profits and excise taxes.

A new regulatory tax imposed by the Revenue Act of 1918

was on the products of child labor, but was declared unconstitutional on June 3, 1918. A national regulation of child labor through a tax imposed by Title XII of the Act of February 24, 1919, was declared unconstitutional May 15, 1922.

There were also incorporated in the Act of February 24, 1919, some amendments to the narcotic law of 1914.

The Act of February 24, 1919, created an Advisory Tax Board appointed by the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury. This board was organized on March 13, 1919, and was dissolved on October 1.

The dissolution of the Advisory Tax Board was followed by the organization of the Committee on Appeals and Review as an independent unit of the Bureau of Internal Revenue, responsible only to the Commissioner.

The Act of February 24, 1919, also provided for five deputy commissioners as well as for a readjustment of the salaries of collectors, with the proviso that no collector should receive more than \$6000 a year.

1921—*Revenue Act of 1921*. On November 23, 1921 * a new revenue Act was passed which changed the rates on many items and abolished some of the taxes altogether. The taxes abolished were those on excess profits, transportation, soft drink sales at soda fountains, furs, toilet articles and patent medicines, and so-called luxuries. The most important administrative feature of this Act is the one providing for the appointment of the Tax Simplification Board consisting of three members representing the public appointed by the President and three officers of the Bureau of Internal Revenue designated by the Secretary of the Treasury. The duties of this board are "to investigate the procedure of and the forms used by the Bureau in the administration of the internal revenue laws, and to make recommendations in respect to the simplification thereof." It will cease to exist on December 31, 1924.

Control of Liquor Traffic, 1917-1922—The regulatory activities of the Bureau of Internal Revenue in relation to the liquor traffic began with the Executive order of September 2, 1917.

On January 29, 1919, the Department of State issued a proclamation stating that as thirty-six states had ratified the constitutional amendment prohibiting the manufacture and sale of intoxicating beverages, the amendment would be in effect on January 16, 1920. On October 28, 1919, the National Prohibition Act became a law over the President's veto.

On August 1, 1921, a reorganization of the Prohibition Unit was effected. The offices of the twelve supervising federal prohibition agents were abolished and their executive duties transferred to the federal prohibition directors.—*Extract I. G. R.* See p. 359.

*A digest of this Act by Senator Charles Curtis was printed in the CONGRESSIONAL DIGEST, May, 1922.

EDITOR'S NOTE.—From the foundation of the government the levying of customs taxes has been used for purposes other than that of raising revenue. Such use has given rise to different plans of economics having to do with the indirect results rather than the amount of money to be raised.

Among these plans have been those known as the protective tariff, discriminatory rates of duty for the purpose of building up American shipping and for the purpose of building up special trade relations with certain countries—generally referred to as the reciprocity treaties—and the taxes levied for the purpose of controlling and suppressing the traffic in opium and narcotics.

On the other hand, the power to levy internal revenue taxes for other purposes than that of raising money was not used until 1886, when the so-called "Oleomargarine tax" was levied, which was designed to prevent this product from competing with butter.

From that time the regulatory use of the internal revenue tax broadened until the Supreme Court through a series of decisions prescribed the limits to which the internal revenue tax could be used for regulatory purposes.

The most recent cases were those declaring the Child Labor Laws unconstitutional as interfering in purely state matters.

The Administration of Our National Tax Laws

EDITOR'S NOTE.—The two main sources of Federal revenue are customs, or external duties, and internal revenue, or domestic taxes. The customs duties are gathered under the provisions of a tariff law. The tariff is not an issue at this time, but the following article is printed here in order to give our readers a comparative view of the two methods of taxation.

OFFICIALS IN THE UNITED STATES TREASURY DEPARTMENT

U. S. Secretary of the Treasury—Hon. Andrew W. Mellon.

*Under Secretary of the Treasury**—S. P. Gilbert, Jr.

Asst. Secy., in Charge of Fiscal Offices, etc.—Garrard B. Winston.

Asst. Secy., in Charge of Foreign Loans, etc.—Eliot Wadsworth.

* Garrard B. Winston has been appointed to succeed Mr. Gilbert whose resignation was recently announced.

Asst. Secy., in Charge of Customs, Revenues, etc.—McKenzie Moss.

Director of Customs—Ernest W. Camp.

Commissioner of Internal Revenue—D. H. Blair.

Assistant to the Commissioner—Charles R. Nash.

Deputy Commissioners—F. G. Matson, R. M. Estes, H. F. Mires, J. G. Bright.

Solicitor—Nelson T. Hartson.

How the Customs Service Operates

By Ernest W. Camp

Director of Customs

CUSTOMS laws are broadly divisible into two parts; first, the tariff or schedule of rates, and second, the administrative provisions. The rates are either specific, ad valorem, or compound. Specific rates are based on weight, measure or count; ad valorem rates are based on value; and compound rates are based both on quantity and value. For many years the scope of the general tariff acts has been so complete that no article could be imported into the United States without falling into some provisions of the tariff.

The administrative part of the customs laws provides the machinery for the collection of duties. The statutory head of the customs service is the Secretary of the Treasury. Assisting him, in Washington, are the Assistant Secretary in Charge of Revenues, the Director of Customs, and the Director of the Special Agency Service, with their assistants. The duties of these Directors are required by law to be prescribed by the Secretary of the Treasury. In the field, at the various ports, are the customs officers who have to do with the actual collection of duties, that is the collectors, appraisers, surveyors and comptrollers of customs and their subordinates. These officers have certain statutory duties.

The Assistant Secretary of the Treasury in Charge of Revenues is the officer immediately representing the Secretary of the Treasury in customs matters. All matters relating to the supervision and administration of the customs service are centered in the Division of Customs, of which the Director of Customs is the head, immediately subordinate to the Assistant Secretary of the Treasury in Charge of Revenues.

Customs investigative work is performed by the Special Agency Service, with headquarters in the Treasury Department at Washington and agents at the principal ports in the United States and representatives abroad. The Director, Special Agency Service, is the head of this organization and functions immediately under the supervision of the Assistant Secretary in Charge of Revenues.

The collector of customs is the chief customs officer in each customs collection district, of which there are forty-seven at present. This number includes one in Alaska, one in Hawaii, and one in Porto Rico. These officers are charged with the collection of the customs revenue and the enforcement of the customs revenue laws and such other duties as are prescribed by law and by the Secretary

of the Treasury under the statutory authority of the latter. It is the duty of the appraiser to ascertain, under such rules and regulations as the Secretary of the Treasury may prescribe, the value of imported merchandise. The surveyor of customs has immediate charge of the inspectors, weighers, measurers, gaugers and other outside force of the service. He is by statute subject to the direction of the collector. These customs officers at the various ports also act as a field service for a number of other executive departments. The officers formerly known as naval officers of customs are now known as comptrollers of customs. Their principal duties are to examine the collector's accounts of receipts and disbursements of money and receipts and disposition of merchandise and to verify all assessments of duties and allowances of drawbacks made by collectors in connection with the liquidation thereof.

While there are many exceptions, in general, merchandise arriving in the United States must be entered at the port of importation, consular invoice produced or bond given for the production thereof, and estimated duties deposited. The merchandise is then examined and appraised by the appraising officer and report thereof made to the collector who proceeds to classify the merchandise, apply the appropriate rate of duty, liquidate the entry and collect the duties.

If dissatisfied with the appraisement of the merchandise, appeal may be made to the Board of United States General Appraisers, whose decision is final. If dissatisfied with the classification of the merchandise, protest may be filed and the collector's action reviewed by the Board, from whose decision appeal may be taken to the United States Court of Customs Appeals whose decision is final unless the case shall be carried to the United States Supreme Court which may be done under certain conditions. The Board of General Appraisers is composed of nine members and the Court of Customs Appeals of five judges, all appointed by the President subject to confirmation by the Senate. Collectors of customs, appraisers, surveyors and comptrollers are also similarly appointed by the President. Deputy and assistant collectors and deputy and assistant appraisers are now, however, appointed by the Secretary of the Treasury.

The Special Agency Service is largely employed in the detection and prevention of evasions and violations of

the customs laws, and in this work has the cooperation of other officers of the Federal Government and very often of local state and municipal authorities. Various penalties are provided by law for criminal offenses. The power to remit these fines, penalties and forfeitures is vested with certain limitations in the Secretary of the Treasury.

Several new features in recent customs laws are of special interest. The Anti-dumping Act of 1921, may be cited as an example. It provides for special additional duties equal to the excess of foreign market value over purchase price if an industry in the United States is injured or likely to be injured or is prevented from being established by reason of importations so purchased.

This article cannot well be concluded without reference to the wonderful growth of the custom service, from

receipts of approximately two and one-half million dollars for the first year of the first tariff to receipts of five hundred and sixty-one million dollars for the first year of the 1922 tariff.

The greatest customs receipts prior to the recent war were collected in 1910 and amounted to \$333,683,445. The war with its interruption to the world's commerce resulted in a decline in import duties collected. The progress since the war has been phenomenal. Receipts in 1918 were \$182,758,988; in 1919, \$183,428,624; in 1920, \$323,536,559; in 1921, \$316,471,968. In 1922 a record was established by the collection of \$357,544,712, and in the year ending June 30, 1923, the collections totalled \$561,928,866. The personnel of the customs service at present approximates 7,500.

The Work of the Internal Revenue Bureau

By D. H. Blair

Commissioner of Internal Revenue

INTERNAL revenue collections are broadly divided into two classes—income and miscellaneous. By far the greater amount is derived from the income tax. Income and profits taxes for the fiscal year ended June 30, 1923, yielded \$1,689,177,409.38. Collections from the miscellaneous taxes, which include all sources of internal revenue except income and profits taxes, were \$932,567,818.19. Included in the miscellaneous taxes are the estate, transportation, beverage, tobacco, oleo-margarine, admissions and dues, excise (automobiles, pianos and organs, candy, firearms, yachts, sculpture and paintings, carpets and rugs, perfumes and cosmetics, jewelry, etc.) capital stock, special taxes on occupations and stamp taxes.

The War Revenue Act of October 3, 1917, created a tax gathering task of greater magnitude than has ever before been undertaken by any nation. In a brief period the Bureau of Internal Revenue was transformed from an agency for collecting tax from a relatively small number of firms and individuals engaged in certain specified occupations to an army of the Government reaching millions of citizens. Until 1917, a comparatively small branch of the Government, the Bureau was enlarged until its employees now number, including those engaged in the administration of the national prohibition act, approximately 20,000 persons.

There are sixty-five internal revenue collection districts in the United States, each presided over by a Collector of Internal Revenue, appointed by the President, by and with the consent of the Senate.

Collectors are authorized to appoint deputies to be compensated by allowance made by the Secretary of the Treasury upon recommendation of the Commissioner of Internal Revenue.

Four Deputy Commissioners are in charge of the Income Tax, Estate Tax, Accounts and Collections, and Miscellaneous Units in Washington. The deputy commissioners are appointed by the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury. The clerical force in both the field and the Bureau at Washington are selected from the civil service register.

The number of individual income tax returns filed as of the calendar year 1921 (the latest compilation showing such figures) was 6,662,176. The total amount of net income reported by these returns was \$19,577,212,528 and the tax (normal and surtax) amounted to \$719,387,106.

As soon as practicable after the returns are received they are carefully audited in connection with any reports

of examinations that may have been made by agents of the Treasury Department. If error in the amount of tax as stated in the return is detected the tax is recomputed and if less than the amount shown in the return the excess is credited or refunded to the taxpayer. If a deficiency is discovered the taxpayer is notified and given a reasonable time in which to appeal and file exceptions specifying the reasons why the tax or deficiency should not be assessed. Opportunities for hearings are granted if desired by the taxpayer. The final decision upon an appeal is rendered by the Commissioner of Internal Revenue, usually with the advice and recommendation of an appellate body appointed by him. (For information regarding assessments and method of appeal see Articles 1012 and 1006, Regulations 62).

When false and fraudulent returns of income are discovered they are referred to the office of the Solicitor of Internal Revenue and through that office submitted to the Department of Justice for prosecution.

The Commissioner of Internal Revenue, with the advice and consent of the Secretary of the Treasury, may compromise any civil or criminal case arising under the internal revenue laws instead of commencing suit thereon, and, with the advice and consent of the Secretary, and upon the recommendation of the Attorney General, may compromise any such case after suit thereon has been commenced by the United States. Accordingly, the power to compromise extends to both civil and criminal cases; cases whether before or after suit; and both taxes and penalties except that taxes legally due from a solvent taxpayer may not be compromised. Refunds cannot be made of accepted offers in compromise in cases where it is subsequently ascertained that no violation of law was involved.

The Bureau of Internal Revenue has at its command innumerable sources of information for checking up delinquents. Under the "information at source" provisions of the revenue act returns of information are required of all persons, trustees, guardians, fiduciaries, and by corporations, partnerships, and organizations, and officers and employees of the United States who paid to others during the calendar year 1922, \$1,000 or more.

Income to be reported includes interest, rent, premiums, salaries, "and all fixed and determinable income." A separate return of information for each employee whose salary for 1922 was \$1,000 or more is required of employers. Special attention is directed to the requirement that partnerships, in addition to filing a regular

partnership return on form 1065, shall file an information return showing the salaries paid each member of the partnership.

Payment for overtime fees, commissions, bonuses, shares in the profits of a business, and the fair value of board and lodging furnished as part payment for services should be included in the total salary paid. Banks and similar organizations are required to report interest paid or credited to a depositor if the total during the year equaled or exceeded \$1,000.

Information returns are carefully checked with individual returns. If in a taxpayer's individual return a payment reported on an information return is omitted, quick action by the Board of Internal Revenue follows. Thousands of delinquents, and additional taxes aggregating hundreds of thousands of dollars, have been discovered as the result of this audit.

In accordance with the internal revenue laws now in force, internal revenue taxes are imposed and collected as follows:

Income and Excess Profits—Collected from taxpayer, payable upon rendering return or in four installments as provided by law.

Estate Tax—Collected by assessment on estate within one year from date of decedent's death.

Capital Stock Tax—Collected annually from corporations filing returns.

Special Taxes on Occupations and Use of Boats—Collected annually from persons liable.

Stamp Taxes on Documents, Passage Tickets, Playing Cards, etc.—Collected by stamps affixed thereto or to packages containing same.

Oleomargarine, Adulterated Butter, Renovated Butter—Collected by stamps affixed to packages containing goods.

Mixed Flour, Filled Cheese, White Phosphorous Matches—Collected by stamps affixed to packages containing product.

Tobacco and Snuff, Cigars, Cigarettes, Cigarette Papers and Tubes, etc.—Collected by stamps affixed before removal from factory or custom house.

Admissions and Dues—Collected from persons receiving payment of admissions and dues, upon filing of monthly return.

Excise Taxes on Works of Art and Jewelry; also on Sales by Manufacturers, etc.—Collected from persons liable for tax upon filing of monthly returns.

Telegraph and Telephone Messages—Collected from

persons receiving payment for services, upon filing of monthly return.

Beverages and constituent parts thereof—Collected from manufacturer, bottler, producer, or importer, upon filing of monthly return.

Distilled Spirits, Fermented Liquors, Wines—The taxes on these articles or products are still in existence under the prohibition laws.

Narcotics and Opium—Collected by stamp to be affixed thereto.

Internal Revenue Collections, Fiscal Year, 1923

RECAPITULATION

The following table gives a recapitulation of receipts by general sources corresponding to titles in the revenue acts for the fiscal years 1922 and 1923:

General sources.	1922	1923
Income and profits.....	\$2,086,904,069.54	\$1,689,159,917.25
Estates.....	139,418,846.04	126,704,979.04
Transportation.....	169,518,727.30	
Telegraph and telephone.....	29,271,521.79	30,265,954.87
Insurance.....	10,855,403.81	
Beverages of all kinds.....	79,113,720.48	40,484,661.71
Cigars, tobacco and manufactures thereof.....	269,771,109.63	308,010,533.82
Admissions and dues.....	80,000,589.53	77,316,520.10
Excise taxes, manufacturers', etc.....	174,327,832.62	185,042,234.32
Special taxes, incl. corp. capital stock.....	91,532,314.40	91,526,753.97
Stamp taxes, incl. tax on playing cards.....	58,706,964.52	64,875,113.81
Employment of child labor.....	15,224.99	
Miscellaneous taxes.....	8,014,758.35	8,358,558.68
(Including receipts under prohibition laws and internal revenue collected through customs officers, etc.)		
Total.....	3,197,451,083.00	2,621,745,227.57

NOTE.—Income and profits taxes represent approximately 64 per cent and miscellaneous taxes 36 per cent of the total receipts, fiscal year 1923, as compared with 65 per cent for income and profits taxes and 35 per cent for miscellaneous taxes, fiscal year 1922.

From Preliminary Statement by Commissioner of Internal Revenue, relating to the collection of internal revenue for the fiscal year ended June 30, 1923.

The Glossary

An Explanation of Tax Terms Appearing in This Number

By Judge McKenzie Moss

Assistant Secretary in Charge of Customs, Revenues, etc., U. S. Treasury Department

CAPITAL Stock Tax is an excise tax imposed upon corporations for the privilege of doing business.

In the case of domestic corporations the basis of the tax is the fair average value of the capital stock. The rate is \$1 for each \$1,000 in excess of an exemption of \$5,000. In the case of foreign corporations the tax is measured by the average amount of capital employed in the transaction of business in the United States.

The tax is imposed in accordance with Section 1000 of the Revenue Act of 1921, and does not apply to corporations exempt under Section 231 of the act.

It is estimated that revenue in the amount of about \$82,000,000 is derived annually from this source of taxation, and the number of returns filed is about 350,000.

Customs: The term "Customs" is used not only to describe the organization charged with the collection of the revenue, but also the duties imposed on imports. The customs service is under the supervision of the Assistant Secretary of the Treasury in charge of the collection of revenues, the officers in Washington working directly under his supervision being the Director

(Continued on page 354)

Recommendations of the Secretary of the Treasury For Revision of the Tax Laws

By Hon. Andrew W. Mellon

Secretary of the Treasury

THE revenue act of 1921 was approved November 23, 1921, and did not become effective as to its most important changes until January 1, 1922. It repealed the old excess-profits tax as of that date and as a substitute imposed a 2½ per cent additional tax on the net income of corporations. It likewise repealed most of the transportation taxes and some of the nuisance taxes, and made some adjustments in the income tax, including revisions of the rates and of the exemptions. These changes have been operating during the calendar year 1922, and the Treasury is able now to form some judgment as to their reaction upon the revenues and their relations to the Federal tax system as a whole.

Some specific recommendations for revision at this time, particularly as to changes designed to close gaps in existing law which are causing substantial loss of revenue to the government relate chiefly to the rates of surtax and the avenues of escape now open under the law. The higher surtax rates, which still run to 50 per cent, or a combined 58 per cent after including the normal tax, put such heavy pressure on the larger taxpayers to reduce their taxable income that these taxpayers inevitably seek every permissible means of avoiding the realization of income subject to surtax. The result is to create an artificial situation, which is not wholesome from the point of view of business or industrial development. At the same time it is impairing the revenues of the government, for under existing conditions the higher surtax rates are undoubtedly operating to reduce rather than increase the revenues. This presents a problem which calls for solution, and I believe it can be solved only by relieving on the one hand the pressure for reducing taxable income, by making further readjustments of the surtax rates, and on the other hand by closing, so far as possible, the existing avenues of escape. To attempt to close the gaps alone will not be enough, for the existing rates of surtax cause such heavy pressure for avoidance that new gaps would surely be found. The high rates sound productive, but the fact remains that they are becoming increasingly ineffective and are yielding less and less revenue every year. The time has come to face the facts squarely and to correct the artificial conditions which now prevail.

REVISION OF THE SURTAXES

The higher rates of income surtaxes put constant pressure on taxpayers to reduce their taxable income, interfere with the transaction of business and the free flow of capital into productive enterprise, and are rapidly becoming unproductive. Under the revenue act of 1921 the surtaxes rise to a maximum of 50 per cent, which applies to all net incomes over \$200,000, with rates on intermediate incomes graduated on this basis.

The statistics of income for recent years likewise show that there has been a remarkable decline in the larger taxable incomes, at the very time that net incomes generally have been increasing.

The surtaxes are gradually defeating their own purpose and the high rates are becoming ineffective because of the steady disappearance of the taxable incomes to which they were intended to apply. Among the means frequently used to reduce the amounts of income subject to taxation are the following:

Deductions of losses on sales of capital assets, with the failure to realize on capital gains:

Tax-exempt securities; and

Other avenues of escape, such as the division of property, the creation of trusts, and the like.

To reach the evil the thing most necessary is the reduction of the surtax rates themselves. I believe, therefore, that it would be sound policy, and at the same time most helpful to the general situation, to reduce the surtaxes to a maximum of not over 25 per cent, which would mean a combined maximum, including normal tax and surtax, of not over 33 per cent. Readjusted to this basis, the surtax rates would, in my judgment, accomplish their purpose and yield as large, or larger, revenues to the government without the unwholesome consequences of the existing rates. The lower rates would at the same time broaden the market for government securities, and otherwise encourage the development of productive enterprise.

Until some such readjustment is made the yield of the higher surtaxes will tend, in the ordinary course of events, to drop toward the vanishing point. The wise course is to reform the surtaxes now while the system still functions and at the same time to close, so far as possible, the gaps which now exist. On this basis the revision can be made without loss of revenue, and, in the long run, with material benefit to the revenues.

TAX-EXEMPT SECURITIES *

The most outstanding avenue of escape from the surtax exists in the form of tax-exempt securities, which under our constitutional system may be issued without restriction by the states and their political subdivisions and agencies. The federal government may likewise issue securities wholly exempt from taxation, state and federal, but since the first liberty loan has followed the policy of issuing its bonds, notes, and certificates without exemptions from federal surtaxes, except in minor amounts and for limited periods. Under the provisions of the federal farm loan act, however, the federal land banks and joint stock land banks are still authorized to issue, and are issuing in large blocks, bonds exempt from all federal, state, and local taxation, and the state and municipal governments are constantly adding to the outstanding volume of their securities, all on a tax-exempt basis. The exemption which gives value to those securities is, of course, the exemption from the federal income surtax, and as matters now stand, the federal government, while denying itself the advantage of the exemption from the surtaxes in selling its own securities, in effect provides a subsidy, at its own expense, to the state and municipal governments, the federal and joint stock land banks and other agencies issuing tax-exempt securities, through the exemption from federal income surtaxes which these tax-exempt securities enjoy.

The volume of fully tax-exempt securities, according to the best estimates available, is now approaching \$11,000,000,000 and has recently been increasing at the rate

* Since this report was written Congress has passed the Intermediate Credit Act to assist the farmers which permits the issuance of fully tax exempt debentures.

of about \$1,000,000,000 a year. With these securities available for investment, fully exempt as they are from federal income surtaxes, investors who would normally put their surplus funds into productive enterprise, are automatically driven under the pressure of high surtax rates into investment in tax-exempt securities, with the result that the federal government loses the revenue, business and industry lose the capital, and funds badly needed for productive purposes are diverted into unproductive and frequently wasteful public expenditure. This is a situation which cannot be permitted to continue without grave danger to our economic structure, as well as to our system of taxation, and the Treasury has accordingly been urging for some time the adoption of a constitutional amendment restricting further issues of tax-exempt securities as the only practicable means of correcting the evil.

Even a constitutional amendment would apply only to

future issues of securities, but once the amendment is adopted outstanding issues of tax-exempt securities will gradually eliminate themselves, and as they become scarcer should so increase in market value as to destroy or at least impair their value for tax-exempt purposes. An analysis of outstanding issues of state and municipal bonds indicates that 50 per cent, or thereabouts, will mature within the next 20 years, so that within a measurable period after the adoption of a constitutional amendment restricting further issues of tax-exempt securities the situation would, to a large extent, be under control. — *Extracts from the Secretary's Annual Report for 1922.*

EDITOR'S NOTE.—Recommendations in the Secretary's Report which were taken care of by legislative measures enacted during the 67th Congress have been eliminated. Any further recommendations which may be embodied in the report from the Secretary to the 68th Congress will be printed in the CONGRESSIONAL DIGEST as soon as released.

How the Ways and Means Committee Views the Tax Question

In accord with the provisions of the Constitution of the United States (Art. 1, Sec. 1, Par. 1) "all bills to raise revenue shall originate in the House of Representatives." All revenue bills, when introduced in the House are referred to the Committee on Ways and Means for consideration. Consequently any bills providing for changes in the present tax laws will go before that committee.

By Hon. William R. Green

U. S. Representative, Iowa, Acting Chairman, Committee on Ways and Means

SO far as the Ways and Means Committee is concerned, the question in which the public is most interested is whether a reduction in taxation will be made at the next session of Congress. The report of the Budget Bureau has not yet been made public. After it has been received it must be approved by the President, submitted to the Appropriations Committee, which in turn reports to the House the amount of appropriations which it deems proper, and the bills carrying these appropriations must be approved by both Houses and signed by the President. It is obvious, therefore, that the question of whether there can be any reduction made in taxation depends on the amount of the appropriations and, as the amount can not be definitely determined at this time, it is, in my judgment, too early to determine whether such a reduction can be made. The incoming Congress is quite a different body from the one that passed the present revenue law. By this law we made an enormous reduction in taxes aggregating about \$818,000,000. This reduction was much larger than many thought ought to be made at the time the law was enacted, and some predicted that it would result in a deficit. Nevertheless we had a substantial surplus at the end of the last fiscal year and I think we will have a surplus at the end of the next fiscal year if no new lines of government expenditure are entered upon. If such a condition prevails taxes might well be reduced and I should strongly favor a reduction. There are, however, pending at least two measures which will be strongly urged in the next Congress, and which, if adopted, would probably absorb any surplus that now seems in sight. In this situation it seems to me too early to determine whether any substantial reduction can be made.

At the close of the last session, at my request, the Secretary of the Treasury appointed a board composed of treasury officials connected with the internal revenue to go over our present revenue law and make a report as to what changes might be made therein in the interest of simplicity and clearness, and also in the way of protecting the government from evasion of taxation. This board has nearly completed its

work and will make report to the Ways and Means Committee at the beginning of the next session. I have every reason to anticipate that the Ways and Means Committee will act promptly thereon and will report to Congress a bill embodying such of the recommendations made by this board as meet with the Committee's approval.

At the last session a constitutional amendment, the purpose of which was to prevent the further issuance of tax-exempt securities, was introduced by me and passed the House, but the Senate failed to act upon it. I shall reintroduce the resolution at the next session and hope for favorable action thereon.

Altogether it may be said that, although it is likely that much important tax legislation will be reported by the Ways and Means Committee at the next session, it is not likely that Congress will make any change in the general policy of our present laws, and that at this time it is uncertain whether any substantial reduction in taxation can be made.

The Proposed Tax-Exempt Securities Amendment*

ARTICLE —.

Sec. 1. The United States shall have power to lay and collect taxes on income derived from securities issued, after the ratification of this article, by or under the authority of any State, but without discrimination against income derived from such securities and in favor of income derived from securities issued, after the ratification of this article, by or under the authority of the United States or any other State.

Sec. 2. Each State shall have power to lay and collect taxes on income derived by its residents from securities issued, after the ratification of this article, by or under the authority of the United States; but without discrimination against income derived from such securities and in favor of income derived from securities issued, after the ratification of this article, by or under the authority of such State.

* H. J. Res. 314, introduced April 28, 1922, by Representative Green, R., Iowa. Passed the House January 23, 1923, referred to Senate Committee on the Judiciary January 24, 1923.

Owing to the resignation of Representative Joseph Fordney, of Michigan, Chairman of the Ways and Means Committee, Representative William R. Green, of Iowa, the ranking Republican member of that committee automatically became acting chairman. Under the rules he will be duly elected chairman when Congress reconvenes in December.

Taxes---and the Cost of Government

When the annual budget is sent to Congress by the President, the House refers it to the Committee on Appropriations. Upon the report of this committee is based the legislation appropriating the money necessary for the expenses of running the government. A complete exposition of the operation of the budget is contained in the November, 1922, number of the CONGRESSIONAL DIGEST.

By Hon. Martin B. Madden

U. S. Representative, Illinois, Republican, Chairman, House Committee on Appropriations

HIGH taxes are the necessary result of high government cost. The federal, state, and municipal governments have no incomes of their own. They take their revenues out of the pockets of the people by taxation. The Federal Treasury receives about \$600,000 a year from the sale of public lands, and that goes into the Reclamation Fund, as do \$9,000,000 from oil leases. Outside of these revenues, the government receives about \$60,000,000 from profits on coinage and the Federal Reserve Banks, sale of timber and leases of grazing land in the National Forest Reserves, from fines and fees and the head tax on immigrants. We shall also have \$550,000,000 from customs taxes, which were formerly our chief source of revenue. This total of \$600,000,000 of government revenue will run the Federal Government for about two months at the present rate of expenditure. For the other ten months of the year Uncle Sam must dip down into the pockets of the people by direct taxes.

I suppose someone will call my attention to an item of \$222,000,000 from interest on loans to foreign governments, carried in the budget as anticipated revenue, but so far there has been little promise of realizing that anticipation. The Treasury has carried that item for four years, and so far there has been only one gesture toward funding the foreign debt and paying interest. That gesture came from Great Britain, but it has not been completed. Meanwhile this Government is paying the interest on those loans.

Before the World War the cost of the federal government amounted to about \$1,000,000,000 a year; during the war the cost was as high as \$35,000,000,000, and since the war we have cut the cost to less than \$4,000,000,000, have adopted the budget system and will continue to reduce government cost. But the state and city governments have been constitutionally increasing their government cost. Many of them have doubled and trebled their per capita cost in ten years.

At one and the same time the people are complaining of high taxes and demanding more government expenditures.

One remedy would be a more equitable method of taxation—more taxpayers. Only 6 per cent of the population pay any federal income taxes, and it is estimated that only one-third of the people pay any taxes at all, federal, state or municipal. That not only puts the cost of government on a small minority but it offers inducements to the large majority, the nontaxpayers, to vote recklessly for every proposition that will increase government cost.

The great majority who do not pay income taxes insist on soaking the rich, not realizing that the more direct taxes placed on business enterprise, the more indirect taxes will be placed on the masses by the increased cost of living.

EDITOR'S NOTE.—The decisions of the Supreme Court have had an important bearing upon the whole subject of taxation both federal and state.

These decisions not only defined the taxing power of state and federal government but also established the rule that the states cannot tax the securities of the federal government and that the federal government cannot tax the securities and agencies of a state. The consequent existence of these so-called "tax-exempt securities" has led to a movement for a proposed constitutional amendment subjecting all these securities to state and federal taxation.

The most notable of these decisions was in the famous case of *McCulloch v. Maryland*.

It would be less of a burden to the poor man to pay a dollar or two income tax than to pay double the amount in increased cost of living. They all pay in one way or another, and I think it would be better for every citizen to pay directly a part of the cost of government. It would bring him to realize that the cost must be met by taxation, either direct or indirect. It would also help him to recognize himself as in part responsible for the administration of the government by informing himself as to how his money is spent. If we could get that idea into all our heads we might pay less attention to the voice of the demagogue and the charge that the interests own and control the government.

Congress has enacted a good many laws offering aid to the states without explaining that Congress could not appropriate a dollar for any purpose without first taking it out of the pockets of the people, or a part of them, by taxation. The federal government ought to levy taxes only to meet the necessary expenses of the federal government and such public works as it controls. The states should be left free to govern themselves and assess such taxes as will meet their government cost without the encouragement of Uncle Sam.

The income tax is a tax on industry rather than a tax on great incomes. It rests on the enterprising business and professional men, and they pay a personal-income tax in addition to the tax on their business if it is incorporated. The lawyer, the doctor, the author, the journalist, the engineer, the mechanic, and the skilled laborer who earn \$1000 or more carry the peak of the income-tax load.

This is a big country, has many industries, many classes of people; and the representatives of every section and every industry think it their duty to protect such interests from undue taxation. The result is a scramble to put the tax on the other man, the other industry, the other class, the other section. It is all right to tax industry, but all wrong to tax agriculture and labor in the same way. By these contests we get lopsided tax laws, whereas if we followed the simple principle of levying taxes on all without distinction, taxing them according to their ability to pay, we should place every citizen on an equality before the law; and I believe such tax laws would give more general satisfaction and remove the suspicion of favoritism which is generally credited to the citizens who really bear the heaviest burdens of taxation.

Under our present law the federal government takes more than 50 per cent of a rich man's income in taxes, and at the same time offers him an asylum for his wealth in tax-exempt securities such as farm loan bonds. Many have no doubt withdrawn their capital from industrial enterprises whose securities are taxed by both state and federal governments, to invest in those tax-exempt government bonds. This is not the fault of the rich men. It is the folly of the government.—*Extr. S. E. P. See p. 359.*

Shall Future Issues of Tax Exempt Securities Be Discontinued?

Pro

Hon. William R. Green

U. S. Representative, Iowa, Republican

IT has been claimed by the opponents that the real object and purpose of this resolution is to prevent absolutely the issuance of any further tax-exempt securities by states and municipalities. It is an all-sufficient answer to this claim to state that example and experience show that such will not and cannot be the case.

No other country in the world gives such an exemption. Canada does not, and the securities of Canada, taxable at home and taxable here, are sold freely upon our own markets at rates below some of the rates required on our own tax-exempt securities. England does not permit any such exemption, and the securities of the cities of England sell at a lower rate as a rule than those of this country. France does not, and has no trouble in negotiating the bonds of her cities.

The large investor wants to have his money in well-known securities, readily marketable and upon which he can readily realize. The real beneficiary of this tax exemption is not the small town or the irrigated district. The real beneficiary is the man of great wealth who does not have his money invested in active business and great estates. It is proposed now that we shall maintain in behalf of such people this bounty of the government, while we shall lay the burdens of taxation upon the high-class artisan, upon the salaried man, upon the man in active business who supports not only himself but large communities by his energy and his enterprise.

I have often heard the charge that those of large wealth who invested their money in tax-exempt securities are tax dodgers and tax evaders. I do not consider them such. If it is right as a principle and practice to issue tax-exempt securities, it is right to buy them.

The wrong against the government is the wrong in permitting them to be issued. Who will be responsible for the continuance of this condition if this amendment is defeated? Upon whom will rest the blame for the failure of these men of great wealth to contribute in proportion to their incomes to the support of the government? Upon those who oppose the resolution. No one can escape from the conclusion that those who advocate the continuance of this condition, those who vote against this amendment, in reality favor and advocate men of great wealth being able to exempt their property from taxation.

There are a half dozen ways in which we can discriminate against these state securities, but Congress has never wished to levy discriminating taxes. It never has wished to put any tax upon these securities in such a way as would absolutely put them out of existence.

If this fair and equitable method, this method that puts the states and the federal government upon perfect equality, be rejected, then we must use some other method, even though it be something that Congress in the first instance would not wish to put into effect and a tax that does not in all respects work justly.

It has been said that there has been propaganda in favor of this resolution. It is not propaganda. It is an all-embracing feature of this matter that from everywhere—the laborer, the salaried man, the farmer, the man in active business who has to compete with tax-exempt securities—comes the cry that they should and must be abolished.—*Extract C. R. See p. 359.*

Con

Hon. Finis J. Garrett

U. S. Representative, Tennessee, Democrat

THIS is a proposition to commingle the powers of the state and the federal government in a manner which no amendment ever yet adopted, or ever proposed so far as I know, has attempted to do. It is designed by this amendment to give to the federal government a certain power, and it may amount to a power of life and death over the credit of the states. On the other hand it is proposed—and herein comes the commingling—to give to the states a certain power which it is possible in the development of human society may reach the point where the states will possess the power of life and death over the credit of the federal government. Neither of these conditions is desirable from my standpoint.

I, of course, am a believer in state rights, and I am also a believer in the national rights and power. I would have each sovereignty's credit independent of the control by taxation of the other sovereignty.

The tax-exempt securities, or the great bulk of them, upon which it is designed to give the power of federal taxation by this amendment are not the bonds and securities of the sovereign states, but are the bonds and securities of the subordinate governments within the state. They are city bonds, county bonds, drainage bonds, school bonds, and all the income upon these bonds of the various subdivisions will be rendered subject to taxation by the federal government, but the municipalities cannot levy an income tax on the federal bonds in return.

It is within the realm of possibility that by a change of the constitution of many of the states it might be accomplished, but if that should be done we come then to the proposition that towns and counties would be given a certain control over the credit of this, the greatest nation on earth.

This is but another step toward that centralization of power so dangerous to the liberties of the people of the country.

The liberties of this people will never be in danger so long as you can keep the powers of government distributed under our dual system, under the checks and balances of the Constitution as it stands. When you create here once a central power, confer upon this Republic control over the credits of your states, your municipalities, your subdivisions, create here your great central government with all governmental powers, particularly the power of credit, you will have created here a central spot at which the future enemies of this country can strike.

We have moved much more rapidly than some of us realize. Through these systems of cooperative appropriation, road appropriation, whereby you appropriate so much and give it to a state if a state will give so much, taxing the state anyway, whether it gives or not, and thus coercing it; by the passage of maternity legislation, by the passage of various measures similar in principle, you have gradually enhanced the powers of the federal government, in so far as you can legislatively, and now you come to lay your hands upon the Constitution of the country to bring about a commingling of powers.

I oppose it because I believe in rendering unto the state the things that are the state's and unto the nation the things that are the nation's.—*Extract C. R. See p. 359.*

Shall Future Issues of Tax Exempt Securities Be Discontinued?

Pro

North Dakota Legislature

Petition to the United States Congress, January 2, 1923.

WHEREAS Congress adopted the sixteenth amendment to the Constitution of the United States, providing that Congress have the power to collect taxes on incomes from whatever source derived;

Whereas Congress subsequently enacted a graduated income tax law levying taxes upon incomes on a graduated basis in proportion to the amounts of the respective incomes;

Whereas the United States Government, the several States of the Union, and all the political divisions of said States now have the right to issue their bonds and obligations in form exempt from taxation under said graduated income tax law;

Whereas the several States and their political subdivisions are actually issuing such bonds and obligations in form exempt from taxation under said graduated income tax law to the amount estimated to be more than \$1,250,000,000 per annum;

Whereas the investment of wealth in such tax-exempt securities defeats the universal and equitable application of the United States graduated income tax law and also similarly defeats the universal and equitable application of the graduated income tax laws of North Dakota and the several States of the Union and violates the ability principle of taxation and unfairly discriminates between tax-payers, creating social unrest because of the large investments in such tax-exempt securities by the wealthy classes of the Nation;

Whereas every dollar's worth of income and every person should carry a fair portion of the public expense, and a large and rapidly increasing portion of the incomes of the property owners of the Nation is escaping taxation through investment in tax-exempt securities, thereby granting to concentrated wealth an avenue of escape from its equitable share of the cost of Government, and in so doing is in effect granting a private subsidy to certain interests;

Whereas we recognize the Federal graduated income tax as a most equitable and effective plan of taxation, but realize that both its equity and effectiveness will be destroyed in such proportion as those most able to pay are allowed to obtain exemption therefrom by the conversion of their property into tax-exempt securities, and that this Nation ought not to continue with part of its people taxed and part of its people tax free;

Whereas such tax exemption of securities encourages extravagant expenditures on the part of the various States and political subdivisions thereof in the way of unnecessary public improvements and otherwise, withdrawing funds therefrom from the necessary business enterprises of the Nation;

Resolved, That Congress is hereby memorialized and urged by the Legislative Assembly of the State of North Dakota to take such action as may be necessary to prohibit as soon as possible the further issuance of securities that are in any way exempt from taxation under the income tax law of the United States Government and under the income tax laws of the several States of the Union.—*Extract C. R. See p. 359.*

NOTE: The States of Arkansas, Iowa, Oregon and South Dakota sent similar Petitions to Congress in favor of H. J. Res. 314.

Con

Hon. Duncan U. Fletcher

U. S. Senator, Florida, Democrat

THE proposal is based on the claim that capital in large amounts seeks such securities in order to escape taxation, thus depriving industry of the benefits of financial support which would otherwise be furnished, and at the same time enabling large investors and capitalists to escape taxation, thereby denying to the government the revenue they should contribute.

If these assertions were true, the case would be practically closed in favor of the proposed amendment. But the arguments offered are challenged for the following reasons:

There is no proof that exempt securities outside of United States bonds are held in large amounts by men of large incomes. And who can say with certainty that investment by this class of investors—in United States bonds—is inspired more by a desire to escape taxation than by patriotic motives and safety.

Such amendment cannot affect outstanding tax-exempt securities and therefore no increase of federal revenue can come from outstanding issues.

The amendment would deprive states and municipalities from procuring future funds at a low rate of interest, and thus prevent development and progress in the way of essential public improvements.

The class of funds which goes into tax-exempt securities comes largely from estate and trust funds, for the benefit of widows and orphans, by reason of the fact that the element of speculation (consequent from high interest rates) must be eliminated from such securities, the safety of the principal being the first requisite.

Again, capitalists will not, simply to escape a reasonable income tax, invest in securities paying from 4½ to 6 per cent when they are able to make many times this per cent by investing in some business or enterprise.

Exclusive of the federal bonds, the securities mentioned are issued for the purpose of accomplishing some important public improvement or development or for productive purposes.

It is important that the bonds bear a low rate of interest and that they be sold at par, a small commission being charged by the broker marketing them. If the income derived from them is to be taxed, there will be difficulty in selling them, the interest rate will have to be increased, and the commission on their sale will be greater, or they must sell below par, thus indirectly increasing the rate of interest.

To do away with tax-exempt securities as proposed means an increase in interest rates and consequently increase in taxation by state and local governments to meet additional interest charges, or else the abandonment of public improvements under local authority and the discontinuance of progress in the betterment of social life.

States and municipalities are not likely to accord to the federal government the right to throw obstacles in the way of the procurement of capital which they consider sufficiently essential to their own prosperity as to exempt it from taxation. They will reasonably contend that local opinion should govern as to their own requirements and that the present is a wise provision of the Constitution which prohibits such interference by the federal government and restrains it in the grasp for additional power.—*Ex. C. R. See p. 359.*

Shall Future Issues of Tax Exempt Securities Be Discontinued?

Pro

Edwin R. A. Seligman

Professor of Political Economy, Columbia University

FROM 1919 to 1926 there will have been outstanding of tax-exempt bonds an amount ranging from \$25,000,000,000 to \$35,000,000,000 to be reduced in 1926, unless the federal government issues more tax-exempt bonds, to between \$18,000,000,000 and \$21,000,000,000.

First and foremost, it is obvious that if outstanding bonds—federal, state, and local—bear an interest rate of about $4\frac{1}{2}$ per cent, it would mean that the income on an average of \$15,000,000,000 would be about \$675,000,000. The federal government alone will have lost up to 1926 not only the 8 per cent normal tax but also the surtax in so far as these securities are held by the richer individuals. If we assume that these bonds are so held that they are subject to an average tax of 40 per cent, we have a loss to the federal government of \$270,000,000 a year, or 40 per cent of \$675,000,000, which is the interest on \$15,000,000,000. This makes no allowance for the $12\frac{1}{2}$ per cent tax on the bonds held by corporations which will bring the figure to at least \$300,000,000.

This loss of revenue far transcends any possible gain that might accrue to the federal government from the lower rate of interest on the tax-exempt bonds.

The second objection to tax exemption is that it creates a gross inequality of burden. To the extent that these bonds form an increased share of the realized property of the nation, tax exemption means the liberation of unearned incomes at the expense of earned incomes. We may not be ready in this country for the principle which has been adopted almost everywhere else, namely, the principle of differentiation of taxation, whereby lower rates are granted to labor or earned incomes than to property or unearned incomes.

With the exceedingly high surtaxes in our present income tax, making the entire tax rise until recently to 77 per cent, and now to 58 per cent, the temptation on the part of the wealthy to invest in the tax-exempt bonds becomes irresistible. The result is a progressive falling off in the numbers and amounts of taxable incomes in the higher income scales.

Tax exemption gives an unfair advantage to certain forms of investment and for that reason disturbs and even imperils general industry. The system of tax exemption prevents reduction of our tax burden and is endangering the entire system of federal revenues.

What we need is a constitutional amendment providing reciprocity as between states and nation. The nation should have the right to subject state and local bonds to the same tax as it assesses on its own bonds; the state and local governments should have the right to subject federal bonds to the same burdens as they impose on their own bonds. This is no attack on the sovereignty of the states. It simply removes an unjust and originally unintended privilege. And when the people of the states come to understand the problem they will learn that the privilege really amounts to very little, and that is, moreover, purchased at the cost of a grievous inequality among social classes.—*Extract N. Y. T. See p. 359.*

Con

Hon. E. Lee Trinkle

Governor of Virginia

THE principle that our government is an indissoluble Union of indestructible states is as old as the government itself. Each government is supreme and sovereign in its own domain. It is, and of right ought to be, no more within the power of the federal government to destroy a state than it is within the power of a state to destroy the Union. From this principle it follows that neither government has power to tax the other or any of its agencies, for it was decided at an early time that the power to tax is the power to destroy. This principle is fundamental in our system.

Grant the state the power to tax the government, it ceases to be independent; grant the government the power to tax the states, they become not states but provinces. Empower the government to tax securities issued by the states, you create absolute federal domination and control over these securities. Witness the tariff, constitutionally intended solely for revenue, it has been since the days of Hamilton, the football of politics for the promotion of the ever-changing economic theories of the party in power. We have no means of judging of the future but by the past, and judging by the past, we have no reason to believe that Congress will voluntarily abandon any part of this regulatory power, once it is granted.

I submit that it is fundamentally improper to attempt to seek relief from the situation by constitutional amendment before the remedies already given by the Constitution are exhausted. The repeal of the higher surtax would lessen the demand for tax-prepaid securities and would go far toward remedying the condition of which complaint is made, for it is to be observed that the condition results not from the existence of the securities alone but from the existence of the securities coupled with the extremely high surtaxes still imposed by law. Moreover, the Treasury has now in its possession about ten and one-half billion dollars of temporary obligations of foreign governments. These obligations are definite commitments by these governments to issue to the United States regulation long-time 5 per cent bonds upon request. Against these obligations the federal government sold its liberty bonds, which are nontaxable by the states. If the government is in earnest in its desire to decrease the tax-exempt bonds outstanding, it will have these foreign obligations converted into bonds, selling them upon the market and using the proceeds for redeeming that amount of its outstanding securities. This procedure will increase the taxable bonds by ten and one-half billion dollars and will retire an equal amount of bonds from which the states now derive no revenue and the federal government no normal tax.

The process of centralization has gone merrily on, now by the slow erosion of judicial decision, now swept forward by the flood waters of constitutional amendment, until today about all that is left to the states is their honor and credit. The proposed amendment would take these away and place them irrevocably under the control of the central government.—*Extract S. C. J. See p. 359.*

Shall Future Issues of Tax Exempt Securities Be Discontinued?

Pro

Whitney Warren

Warren & Wetmore, Architects, New York

BY the present tax law it is pitifully true that professional men, lawyers, doctors, architects, etc., who are of the working class as much as any laborer, who have no capital but their brains, are penalized for the short period of their earning capacity to an extent beyond all comparison with others and from which they have no avenue of escape.

The present law was designed to impress the masses that those possessed of the world's goods, the rich, should bear the burdens—not those creating and producing—and is therefore unfair to professional men.

Tax-exempt securities are purely for the capitalist whose most irksome task is cutting coupons and investing tax-exempt income in further securities of the same kind. Class taxation is impossible of realization, being unjust. Everybody should bear his share and no more than his share, or he will find some way of side-stepping it.

The situation may be rectified by establishing a tax on what is present and not on what should be saved, which is the wealth of any country. Moreover, there should be a tax at the source of all raw materials—be it coal, ore, wheat, salt, or tobacco—which will bring in the greatest of returns to the state while burdening only to an infinitesimal extent the farmer, working or professional man, the sinews and brains of the country, instead of as at present smothering them under the ever increasing profit added all down the line to pay (and a little more besides) the taxes of those who control the commodity until it finally reaches them, the consumer.

Charles J. Bullock

Professor of Economics, Harvard University

THE theory of tax exemption of bonds is that the government gets the benefit of the exemption in the shape of a better price for its bonds, or lower rate of interest. Now, with a proportional income tax, that is true. With a progressive income tax it is untrue, because the difference in the rate of interest that the government secures, under a system of progressive taxation, is very much less than the advantage that the taxpayer of large means gets out of the exemption. When you have a progressive income tax, the government loses money by failing to issue taxable bonds at the market rate of interest. The United States Government since 1917 has lost millions of dollars a year in taxes over and above any possible gain that may come about through issuing tax-free securities.

This resolution I understand provides for equal taxation. Now, the power to levy equal taxation is not the power to destroy. Taxes levied for revenue cannot be levied for more than one year, or a few years, on a basis that destroys. Governments have got to let taxable ability and taxable business and the objects of taxation live. It is the power to levy a discriminating tax that destroys.

There is no validity in the statement that if the states are given the power to tax federal securities on the same terms as their own, and the federal government is given the power to tax state securities on the same terms as its own, that power will be used in such a manner as to destroy.—*Extract N. T. A. See p. 359.*

Con

Robert M. Hughes

Lawyer, Virginia

MY first objection is that the proposed amendment if passed will tend to break down the mutual independence of state and nation. I believe that each should work in its proper sphere without interference from the other.

I cannot imagine a greater firebrand than the proposed amendment. It invites endless tax wars between state and nation. This provision, even if not acted on by Congress after its insertion in the Constitution, would destroy the market for state and municipal securities and prevent their issue in great emergencies for the most necessary purposes. The liability to taxation would have this effect, even though the right to tax was not exercised.

My next objection is that such a measure would act as a preferential tariff in favor of foreign securities and against our own.

Another objection is that it would discourage saving by the small investor. Our bonds should continue to be issued in small denominations as well as in large, and the people of limited means should be encouraged to purchase them and hold them for a rainy day. They are really contributing taxes indirectly, for the government or state, as the case may be, gets its taxes in its saving of interest. To deny him this opportunity is to make him the victim of "blue sky" promoters, for men of that class are not easily persuaded to invest in industrial bonds or stocks, which are usually in denominations too large to be available.

A most vital objection is that the proposed amendment makes no provision for primary and successive renewals of outstanding public obligations.

To make renewals subject to tax would bankrupt half the cities in the United States. No growing city pays off its debt, but always expects to renew it. To make its renewals subject to national taxation would involve a ruinous interest rate, for the possibility of taxation affects the marketability of bonds only less than the actual imposition of the tax.

Still another objection is that it will not, in my judgment, result in driving money into industrial securities, as predicted by its advocates.

Legislation cannot drive capital into investments that it distrusts. It may be driven into lock boxes and old socks or into foreign channels, but that is the only result of such measures.

We see this partially illustrated already. In spite of the fact that many of our industries are languishing, Dutch loans, Brazilian loans, Argentine loans, Swiss loans, and many others have been floated in this country and taken up by investors in preference to local bonds. The proposed amendment will aggravate matters by extending our public securities the same distrust that is now felt for our corporate securities, thereby driving additional American capital abroad.

An amendment to the Constitution counter to its whole theory of distribution of powers is not so easy to correct and the mischief springing from it reaches far beyond the special occasion which prompted it. I sincerely hope Congress will reject a proposition so fraught with peril.—*Extract C. R. See p. 359.*

Will the Sales Tax Solve the Problem?

Pro

Hon. Reed Smoot

U. S. Senator, Utah, Republican

SOUND policy demands the early accomplishment of a real reduction in the tax burdens, and that can be achieved by substituting simple for complex tax laws and procedure.

I have presented a plan embodying one form of a sales tax. The chief features of a sales tax are the simplicity in the determination of the amount due and its payment monthly out of current receipts. It is a business-like tax system for business. The form which it should take is solely a matter of selection.

My proposal would provide in brief for the repeal of all war taxes; the retention of corporate and personal income taxes at the present rate; the surtaxes reduced to the point of demonstrated efficiency; the retention of tobacco and inheritance taxes; the levy of import duties in pending terms and the remainder of federal revenue secured by the levy of a 3 per cent tax on all articles produced or manufactured at the point where they are sold for final consumption or use without further process of manufacture.

I have endeavored to submit a single method of taxation which will provide comparatively few collection points as compared with the various forms of taxation which I propose to have repealed. Through the substitution of my proposal for all of these miscellaneous taxes the Treasury Department will be supplied with six main sources of revenue: (1) Individual income tax, (2) Corporation tax, (3) Customs Duties, (4) Inheritance or Estate tax, (5) Tobacco tax, (6) Manufacturers' and producers' tax.

The manufacturers' and producers' tax is a sales tax, but of a limited form, applying as it does only to articles when sold for consumption or use without further process of manufacture. Defining the tax in this way eliminates any cumulative effect which has been one of the principal objections to a gross turnover sales tax, though that objection readily can be met. It affords no advantage to an integrated or many-processed business over the non-integrated competing business. It is a single tax to be paid once only and then upon the sale of the article, when sold for consumption or use without further process of manufacture. My plan provides for a similar tax upon imported articles so that there will be no disadvantage to American manufacturers or producers in competition with foreign goods. It also provides for the exemption of sales of less than \$6,000 per year, thereby eliminating the necessity of auditing small-sized accounts.

I admit that the tax which I propose is a tax on production, and as it will be passed on to the consumer, just as every other tax must be passed on, that it becomes in practical effect a consumption tax. But every tax upon the income of business must be a consumption tax in the sense that the tax is passed on and included in the price to be paid by the consumer. The excess-profits tax, the income tax, local property taxes, state franchises, and every other form of taxation on business must be included in the cost of doing business and goes into prices as part of that cost. The tax which I propose would not be an additional tax but a substitute for other taxes which are now greatly inflated in costs and passed on in that inflated form.—*Extract C. R. See p. 359.*

Con

Hon. Irvine L. Lenroot

U. S. Senator, Wisconsin, Republican

I HAVE no doubt that the major part of the propaganda for a sales tax has come from the representation that if a sales tax were adopted the surtax upon incomes would be reduced; that the complicated returns would be abolished; that the tax upon corporations would be reduced; and that the complicated corporation-tax returns would be abolished; but under the proposed plan there is no simplification for the individual taxpayer; it does not affect him in the slightest degree. If this tax be adopted, his complicated returns will be continued in the future as they have been in the past.

I am not one who will take the position of being opposed to a sales tax under all circumstances. In my judgment, a sales tax is justified only when we have reasonably exhausted all other sources of ability to pay, and until such sources are exhausted, a sales tax, whether it be a manufacturers' tax or a turnover tax, cannot be justified, because it violates the principle of taxation according to ability to pay.

Who pays the tax? I have admitted that in a rising market it will be passed on to the consumer. The consumer pays not only the 1 per cent tax, but he pays on a fair computation of profits about 1.40 per cent. In the case of a falling market it cannot be passed on to the consumer, and the manufacturers of the country today are, generally speaking, not making any excess profits. It has been repeatedly stated by the manufacturers of the country that many of them are doing business at a loss, are doing business in order to keep men employed and save as much as possible of the overhead expense.

It is claimed that a 1 per cent tax upon gross income, because that is what it means so far as the manufacturer is concerned, is not burdensome.

The opponents of the excess-profits tax say that not only was the tax being passed on to the consumer but because of the existence of that kind of tax those who paid it in the first instance were doubling it and trebling it and quadrupling it when the goods reached the consumer. But the proponents say that with a sales tax, which offers exactly the same opportunity, which offers the same inducement, that will not be done; that this kind of a tax will not be passed on to the consumer.

We will assume now that the tax cannot be passed on to the consumer because of market conditions. The manufacturer then, very naturally, in order to save himself from as much loss as possible, is going to take it out of the producer of the raw material which he uses. Can there be any doubt about that? Is not that going to lower the price of the products of the farm? If the tax cannot be passed on to the consumer, is it not very likely that it will be taken out of the producers of the raw material and be used as an excuse for paying them lower prices?

There cannot be any question about it, that if a tax cannot be passed on to the consumer, if the manufacturer can take it out of the producer he is going to do it. I believe that this plan selects a class of our people for taxation, assuming that the tax cannot be passed on, which can least afford to pay additional taxes.—*Extract C. R. See p. 359.*

Will the Sales Tax Solve the Problem?

Pro

The Business Men's National Tax Committee

Meyer D. Rothschild, Chairman

IT has been estimated that a gross sales or turnover tax of one per centum on the sales of all kinds of goods, wares and merchandise, embracing raw materials, manufactured goods, and real property, and including the receipts of public and personal service corporations, amusements, clubs and other like receipts, will yield an annual revenue of from four to six billion dollars.

As to the taxation of personal service, our plan is to tax the broker not one per cent on the sale, but one per cent on the commission or money which he receives for the sale. In other words, the broker and the banker and the architect and others, who sell personal service, are now paying some kind of a tax. In lieu of the kind of tax they are paying now, if this sales tax were uniformly applied, they would pay the one per cent turnover tax on their gross receipts, which would not be the price they receive for the stocks or bonds but the commission they earned.

We believe that business can well afford to pay a tax based on every turnover of merchandise, provided the rate of tax is a very low one and that this shall be the only tax on business.

Tax on turnover is a more certain tax, because it does not depend upon profits. The experience of business men is that profits are very difficult to anticipate and that there are always a certain number of unprofitable years followed by better years, and only occasionally by extraordinarily good, or "boom" years.

Our present system throws too heavy a burden on business men. They are faced with the necessity of providing very large sums of money as the government's share of the taxes which, even though they have been collected from their customers, are very often not in the form of cash in hand, but in book accounts, raw materials and merchandise.

We believe that a general turnover tax, not exceeding 1 per cent, will furnish to the government all the money which it may require, and this, with a moderate tax on personal incomes, revenues collected from duties, and an inheritance tax, will give the government ample funds to pay its way and ought to furnish a surplus sufficiently substantial to retire our present great debt within a generation.

In 1914, the first year of the income tax, consumption taxes yielded 89½ per cent of the total tax revenue.

Here is unmistakable evidence that the people of the United States are not facing any new problem when they are asked to pay an indirect consumption tax in the form of a pyramided turnover tax on all sales, which may amount to 2½ to 3 per cent of the final price of goods for consumption. They cannot possibly consider this small tax a heavy burden.

Under our proposed turnover tax, the government will get every penny of the small pyramided tax, which will probably average less than 3 per cent of the price paid for goods by the consumer.

A gross turnover tax is simple of administration. The sales book or cash book of the taxpayer will automatically furnish the basis for computing the tax. The report can be made monthly on a very simple blank. The taxpayer can report his month's sales on one line and his returns of merchandise as credits on another. The difference between the two shows his taxable turnover for the month.—*Extract N. T. A. See p. 359.*

Con

National Industrial Conference Board

Report of the Tax Committee

THERE is great uncertainty as to the form a sales tax would finally take, as well as to the rate necessary to raise the required revenue.

One of the best known advocates of the sales tax states that no one can estimate within a billion dollars what such a tax would produce. It is not believed that business men desire to pay or even collect for the Government perhaps twice as much revenue as may be required.

It is frequently stated by the advocates of the tax that 1% on every sale is such a small amount that certain admitted inequities in its operation are negligible. A tax of only 1% of his gross sales levied upon a merchant who turns his stock four or five times a year would in many cases equal or exceed 40% of his net profits.

The uncertainty as to whether or not the tax would in fact be shifted to the consumer, and the advantage it would give to multiple-process organizations would be most serious in their effect upon business.

To the extent that a sales tax is not shifted it becomes a tax on gross income, which is entirely inequitable as between various classes of business.

A tax upon gross income would be more burdensome than a tax upon net income. The inequity of a tax on turnover or gross income as between a business which turns its capital once in several years and another which turns its capital several times a year—provided the tax can not be entirely shifted—is too great to be borne.

It would be an unfair discrimination to relieve corporations of all but the sales tax, while compelling partnerships and sole proprietors to pay normal income and surtaxes on their business income.

It is to be questioned whether the government should levy a tax which would be in effect a bounty on combinations and which would drive out of business many classes of so-called middlemen who perform a service which is well worth what it costs. Devices to get around the tax through the avoidance of technical sales would be multiplied. Consignments of goods to selling agents instead of to wholesale distributors, contracts for future sales, leases and rentals would take the place of the economic process of a direct sale at each step of distribution.

The administrative difficulties presented by a turnover tax are much greater than is generally realized. New and complicated problems would arise in the definition of what is a sale. The present practice in some lines, of renting or leasing out the product instead of selling it, such as now holds in the case of shoe machinery, adding machines, coffee urns, etc., is capable of being largely expanded. Such practices with the purpose of avoiding the payment of the tax would present considerable administrative difficulty.

Those who claim that a sales tax would be shifted to the ultimate consumer propose that business and personal income shall be relieved of the payment of two billions of taxes and this entire amount shifted to the consumer. One of the accepted principles of sound as well as just taxation is that it should bear some relation to the ability to pay. A tax at a uniform rate upon all purchases, while falling more heavily upon the largest spenders, would not bear any reasonable relation to ability to pay.—*Extract.*

Will the Sales Tax Solve the Problem?

Pro

Charles E. Lord

Galey and Lord, New York

I DO NOT advocate a sales tax as an additional load, but to replace sources of revenue which are drying up, and war taxes which have proven injurious. There is no shifting in this of the tax burden from the rich to the poor.

From current experience with income and profits taxes, we know that from one-half to two-thirds of the required revenue must be raised from other sources. Part will come from customs duties, inheritance taxes, tobacco taxes, and certain stamp taxes; the remainder must come from sales in some form; and the proposition to apply the tax at 1 per cent on the gross sales or turnover of merchandise has the advantage that it is easily definable and simple of administration. We know what a sale is, we understand the term "goods, wares, and merchandise"; every dealer has a record of his sales, and any ordinary bookkeeper in a mercantile house can furnish the total of a month's sales without expert advice. It could be collected every month or every quarter through the existing machinery of the government at a little cost to either the government or the taxpayer. Being definite, at a low rate and alike to all, it would have no competitive influence and would shift without loading, resting finally against the consumer to the accumulated amount of $2\frac{1}{2}$ to 3 per cent, and so rest on his purchases or commodities only—not on his rent or doctor's bill or amusements or other items that make up half of the ordinary family's expenditures.

In practice, it would be found that the tax would run with the goods, the farmer or producer selling at the bid or market price and collecting in addition the amount of the tax, with the wholesaler following the same course and adding the amount of the tax to the bottom of his invoice; and the retailer, not wishing to present a tax bill to his customer, adding his 1 per cent to his overhead cost, distributing it over his total sales rather than against specific articles. I am of the opinion that such tax would produce \$1,500,000,000. If you find the tax is falling short, you can raise the rate a quarter or a half cent. If you find it is producing too much revenue, it may be scaled down.

It has been stated that a sales tax would bear disproportionately on those of small income. This is misleading, as only a portion of income is spent for commodities, which already under existing taxes probably bear a higher tax load in their prices than they would under a 1 per cent sales tax. Those of small income enjoy complete exemption from income taxes; a little further up the scale of living the taxpayer begins to pay an income tax in addition to a sales tax, which in itself is larger as he spends more and more for commodities, and taxation continues to grow as income and expenditure expand.

It ought to be evident that a tax that is uniform and of low rate and applies to everything has no bearing whatever upon profit. A tax that applies to everybody in business becomes an absolute negligible element in commercial transactions, and will have no bearing on commercial transactions.—*Extract S. C. F. See p. 359.*

Con

Fred Rogers Fairchild

Professor of Political Economy, Yale University

THE sales tax is, first of all, a tax upon consumption; that is, the tax is bound to be ultimately shifted from the immediate taxpayer to the ultimate consumer of the goods. It is a tax which must rest as a burden on cost, being an addition to the cost of each unit of product, and ultimately the consumers must pay this additional cost.

During the process of shifting injustice may be done and inequality result, due to different ratios of net to gross earnings, since the sales tax is virtually a gross earnings tax, due to different rates of turnover on capital. So that during the period of transition the sales tax is going to be very hard on those businesses that are struggling against adverse conditions.

It is also hard on those concerns which have large gross sales and small ratio of profits. After the transition has ultimately taken place, then it becomes a burden on the consumers, and that is the most important feature of the sales tax. There the injustice is due to the fact that in the process of manufacture goods pass through various stages from the extraction of the raw material, the manufacture in various stages, the sale to jobbers and retailers, and, finally, the delivery to the ultimate consumer. The sales tax means a tax on every single process from the raw material to the final consumer. In some lines business is integrated and all of these processes are embraced in a single great concern. Here there is one tax. In other cases, small concerns are each one performing one part, one process, in this series, and the sales tax has to be paid as a tax on the sale at every process in the series. It has been figured that this may mean a tax paid ten or a dozen times over in some cases.

Based on figures presented by the advocates of the sales tax themselves, the tax when it finally reaches the ultimate consumer will not exceed more than $2\frac{1}{2}$ or $3\frac{1}{2}$ per cent of the price of the goods when finally sold. Now, I submit that a tax of $2\frac{1}{2}$ or $3\frac{1}{2}$ per cent is a not a small matter.

In my opinion the sales tax is advocated by those who would like to see the burden of the expenses of the Federal Government shifted from the income tax on to taxes on consumption.

I am fearful lest we find ourselves saddled with a great new tax machine, a tax which is inherently unjust in that it is a tax on consumption, a tax which bears more heavily on the poor than on the rich; a tax which will be a burden on business at a time when business needs all the assistance it can have to get on its feet again; a tax which will affect unequally different businesses according as many processes are integrated in one concern or distributed among many small concerns; a tax which, if we may accept the estimates of its friends, would produce revenue far in excess of what is now needed; a tax which would leave us with the danger of a reversal of our tax policy; a fundamental change in our tax system which would set our faces against the weight of all tax authority and against the history of modern democratic countries of the world.—*Extract S. F. C. See p. 359.*

Will the Sales Tax Solve the Problem?

*Pro*Trades Council, Manufacturers' Club
of Philadelphia*Charles P. Vaughan, Chairman*

BECAUSE of constitutional restrictions Congress has about exhausted possible types of taxes. With the income tax, the estate tax, and the capital-stock tax, and other occupation taxes, utilized to the limit of their productivity, as a practical matter no source of revenue remains except the taxation of sales. The problem is not *whether* we shall tax sales but *how* we shall tax them.

The real issue is between a continuation and extension of the present system of specific sales taxes at high rates, on the one hand, and a turnover sales tax at the rate of 1 per cent or less on goods, wares, and merchandise, on the other hand.

From the standpoint of the government, the yield of a tax and its ease of administration are most important. The specific sales taxes, together with the capital-stock tax and the estate tax, can provide \$1,400,000,000, but \$600,000,000 more is needed. Can the specific sales taxes be increased and extended sufficiently to make up the required \$2,000,000,000?

It is estimated that the turnover sales tax on commodities will produce very close to \$2,000,000,000. If so, the capital stock tax and the estate tax could be eliminated along with the specific sales taxes, which would be well, because the capital-stock tax is unworkable and inheritance taxation should preferably be left to the States.

The administration of the specific sales taxes is extremely difficult. The turnover sales tax, being imposed at a single rate on every sale of every article by every person, will in comparison be simplicity itself to administer.

The enactment of a turnover sales tax would permit of the present exemption from income of \$1,000 for single persons and \$2,000 for married persons being raised to \$3,000 for single persons and \$4,000 for married persons. The turnover sales tax shifted to a single man would usually not amount to more than \$60. The consumer of moderate means would be directly and substantially benefited by the adoption of the turnover sales tax. As to the consumer with an income less than \$1,000 or \$2,000, who now pays no income tax, the total turnover sales tax which could be shifted to him would be perhaps \$20 or \$40 in one case or the other, and he would save whatever uncertain part of the specific sales taxes might be shifted to him. It is nonsense to say that such an individual under the present system does not pay, and under the proposed increase in specific sales taxes would not pay, on the average a substantial consumption tax.

So far from the existing and proposed specific sales taxes drawing revenue from the rich according to their ability to pay, such taxes actually bear more heavily in proportion to their income on those of moderate and small means.

Under the turnover sales tax the man who spent \$100,000 would pay 100 times as much tax as the man who spent \$1,000. Being spread proportionately, the turnover sales tax would avoid the present uncertain and fortuitous incidence of the specific sales taxes. Instead of increasing the burden of the common lot, the turnover sales tax would ease it.

If we adopt a turnover sales tax on commodities, we shall be rid of the tangle of specific sales taxes and shall have, co-ordinate with the income tax, a turnover sales tax so certain, so equal, and so simple, that the present nightmare of taxation will speedily become one with other horrors of the past.

—*Extract S. C. F. See p. 359.*

Con

The National Grange

T. C. Atkeson, Washington Representative

IN 1921 the National Grange passed the following resolution:

"*Resolved*, That we are opposed to the introduction of any new principle of taxation variously known as a sales tax, consumption tax, manufacturers' tax, or turnover tax in any form and by any name, and consider the effort to enact it into law indefensible, wrong in principle and designed to shift the burden of taxation from those most able to pay and who receive the greatest benefits to the shoulders of those least able to pay and who receive the least benefit from government."

We are confronted by a propaganda which is part of an effort to transfer present tax burdens, which we believe are justly and equitably placed, to the millions of farmers, wage earners, and others of small means who now earn less than \$2,000 a year and are now burdened by indirect and other taxes beyond the limit of their actual ability to pay.

The real crux of the argument against the sales tax, stated in fewest words, is: To enact this tax and repeal "all other taxes on business," or even a part of them, such as proposed in numerous measures now pending, is to relieve a few thousand persons and corporations—those best able to pay—of some hundreds of millions of dollars of taxes and compel several million people already loaded to and past their ability to pay the indirect taxes now levied, to pay this additional tax.

In all the arguments made about either the theory or the practical experience of taxation, this fact seems perfectly clear despite all efforts to begot it—that the tax most difficult for the taxpayer to transfer to some one else to pass on is the tax on net income. If a sales tax is passed, it will permit the repeal of a part of the income tax. That is its probable genesis.

From latest available data, it is learned that of approximately 25,000,000 heads of families or single men and women without dependents in the United States, income tax returns are filed by somewhat less than 5,000,000.

That means that four-fifths of the heads of families and independent single individuals have, if married, less than \$2,000 a year income, or if single, less than \$1,000 a year.

This meager income, measured in commodities, must feed, clothe, and shelter these millions and provide such recreation, education, and those other essentials as are implied in Americanism and an American standard of living.

These people, four-fifths of the population, will be the victims of a sales tax. No specious argument can hide this fact. The demand for "No other taxes on business," which is the corollary of this tax, if put into law, will cut off about a billion dollars of surtaxes, corporation and excess taxes, and luxury taxes, and then the sales tax will put a billion and a half dollars of taxes on consumers—that is, on everybody—pro rata as per consumption. Of the 25,000,000 heads of families of which 20,000,000 are below the one or the two thousand dollars income class, the richer 5,000,000 will not pay over one-third of the sales tax, while the 20,000,000 will be called on to pay the other two-thirds, or at least a billion dollars in addition to what they now pay, which is, as shown, all they can or ought to pay.

Shall the Present Income Tax Be Retained?

Pro

American Farm Bureau Federation

H. C. McKenzie, Taxation Director

THE measure of man's ability to pay taxes for the support of the national government is his net income and the taxes should be levied and collected on that basis; the rate should be progressive, that is the larger the income the higher the rate; while recognizing that the first consideration in any tax measure is the raising of revenue, its collateral effects must not be lost sight of and, insofar as practicable, the taxes should be so levied as to tend to the distribution of wealth among the many and not to its concentration in the hands of the few.

The center of the fight has been the sales tax. The vital difference between income taxes and the sales tax is this: Income taxes are paid largely out of income above the living wage, while a general sales tax would be paid largely out of the living wage.

On the basis of \$2,000,000,000 which the sales tax was expected to produce, the farmer would have had to pay \$1,000,000,000, as he uses half the goods consumed in the country; divided among the 6,000,000 farms it would have meant \$166, on the average, for each farm. This billion dollars will now be partly made up by the 2½% increase on the flat corporation tax, the capital-stock tax and the raise from 32% to 50% in the surtaxes on individuals.

The "expenditure tax" is not very different from the sales tax, and, if anything, is less desirable. The idea that people with large incomes that are saved should get by without tax while the fellow that has to pay out all of his income to live should be taxed will not appeal to the farmers or to the American people as a whole.

The excess profits tax has been the highest single producer of revenue, and produced in the fiscal year 1918, \$2,500,000,000; it has been repealed and as a partial substitute the flat tax of corporations has been raised from 10% to 12½%; this is wrong from every standpoint; it frees corporations with large incomes from about half their taxes and increases the tax on corporations with small earnings by 50%; it is precisely the antithesis of justice and is a glaring violation of our Principle No. 1, taxation according to ability to pay as measured by net income.

American Federation of Labor

Resolution Passed at the 41st Annual Convention, June, 1921

RESOLVED, That the American Federation of Labor in convention assembled declares against the imposition of a retail or general sales tax or turnover tax, or any other tax on consumption, and opposes the repeal of the excess profits tax, and demands that the highest rate of taxation levied during the war upon incomes and excess profits be retained until the full money cost of the war has been paid, and further demands that the government promptly levy a rapidly progressive tax upon large estates and a moderate tax upon the value of land and other natural resources speculatively held in order that the national debt may be promptly retired.—*Ex.*

Con

C. P. Landreth

Business Science Club of Philadelphia

ONE of the many unfortunate aspects of the present system of taxing incomes is that, in the instance of manufacturers, merchants and business men generally, the tax is not merely upon money drawn from a business and applied to personal uses, but is upon money often not received.

The present system of taxation discourages enterprise and thrift, retards development and imposes losses which are of widespread effect. It discourages the reinvestment of capital derived from business profits, holds back the installation of new machinery and the building of new factories, the opening up of mines, the expansion of public utilities and the advancement of all other businesses where the profits derived otherwise would be reinvested in the same enterprise. It also creates a prevailing tendency toward retrenchment, except in actual "boom" times, such as the immediate present; and it thus inflicts a resultant loss upon those who can least afford it, viz., the industrial workers, and the smaller dealers who sell to them.

At present there are two bases for the assessment of income taxes. One is the "accrual" basis, which particularly concerns business. The other is the "cash" basis, with which the majority of the people are familiar. An individual or a corporation dealing in merchandise or any manufactured product, and any business which necessitates the taking of inventories, has no choice in the matter and must report upon the "accrual" basis—a cruel basis, as nearly every business man knows.

It taxes money not yet received, money put back into business, and very naturally causes endless dissatisfaction, uncertainty and expense.

The class upon which the general welfare of our country depends is composed of that approximate five per cent of our population, upon whose enterprise, industry and investment of their capital in business, the well-being of about ninety per cent depends. This class has a willingness to put back into business profits that have been derived from that business, thus creating more demand for goods and supplying more employment for the wage-workers. Their inclination is to discard their old machinery and replace it with new, to increase their stocks of merchandise on hand, put their money into circulation, supply capital to other industries, and thus generally help to make prosperous times for all. These do not spend their profits, except in small measure, for those things for which the average man thinks such "incomes" are spent.

They are taxed as having "income," even though the book profits are still in the business and not withdrawn by them. They must pay, in cash, rates of tax which run as high as one-half of the supposed profit, although later that presumed profit may prove to be a loss. It is true that if later they have a profit, they can deduct from it this loss, and thus get back the tax paid on such a loss; but if they fail later to make a profit, they never get it back.

Our present Income Tax Law not only operates unfairly, but is not based upon a recognition of the operation of economic laws and principles. It is a system of excessive cost—upon the government and the people alike.—

Extract M. See p. 359.

Remedies Proposed for Improving Our Tax System

Dr. Thomas S. Adams

*Professor of Political Economy, Yale University**Tax Adviser to the U. S. Treasury Department**"Levy a Fair Consumption Tax"*

THE philosophy of consumption taxes is, as I see it, this: that it is fair and reasonable to lay some taxes on consumption; that these should be a reasonable proportion of the total tax budget. We collected in the last fiscal year something over a billion dollars from consumption taxes, as I interpret the term "consumption taxes." That constituted about 21% of the total internal tax budget. I think that it would be wrong to double that percentage. It would probably be fair, under all the circumstances, to increase it to 30%, but I do not care whether you place the proportion at 25, 30 or 35%. Let's agree that we are going to do that. We are raising now \$1,000,000,000; we want to get, we will say, \$1,500,000,000. There is \$500,000,000 more to be secured from sales or consumption taxes. These are the criteria by which those sales taxes should be selected. Our object is merely to levy a fair tax on the consumer. There is nothing so elastic as the consumption of an individual. It makes very little difference to the individual upon what particular commodity you lay that tax. You tax my cigarettes and my cigars and I pay no attention to it. I cease buying automobiles or clothes or something else that I want less. It is of no particular importance, in its effect on my tobacco consumption, that you levy a tax there, rather than on automobiles or clothes or postage stamps.

The first thing, then, that we must ascertain is this: Is the demand for the article so stiff—one of my predecessors used the term "inelastic"—is the demand so inelastic that it is practically certain that the tax will be borne by the consumer and not by the producer?

Having found the commodity that is not an absolute essential in life, a tax upon which will be borne by the consumer, there is one other controlling consideration. That is, that it shall have the administrative virtues, the first of which is that the tax shall be clearly defined.

For instance, I believe that Congress should repeal the existing tax on fountain drinks, ice cream, and, in quotation marks, "similar articles of food and drink." It lacks every administrative virtue. You don't know what it means. That is merely one of the criteria—clear definition.

Secondly, the tax, if it is to be successful, should be on an industry which at some point is concentrated so that it is not necessary to run all over creation visiting, checking, inspecting, and collecting from about forty thousand taxpayers, thirty thousand of which are paying taxes that are not worth bothering with.

From that standpoint, the gasoline tax would seem to me an ideal tax, because it could be collected at the refinery. But should you not say to Congress: first, that these selected sales taxes should not be imposed on the utter necessities of life? Secondly, that they should not be imposed upon industries which are in such shape that the industry will bear them, in whole or in part. Thirdly, that they should possess the administrative virtues of clearness of definition, of a relatively small number of taxpayers, great productivity, and possibility of complete collection without great evasion.—*Extract N. I. C. B. See p. 359.*

Hon. Ogden L. Mills

*U. S. Representative, New York, Republican**"Substitute a Spendings Tax"*

THE difficulty is that the fiscal needs of the government and popular opinion will, in all probability, not allow us to reduce surtaxes to the point where they can be successfully collected, and we are driven, therefore, to search for a substitute. That substitute can, I believe, be found in what, for want of a better name, I have called a graduated spendings tax.*

The spendings tax is a tax on all expenditures for personal living and family purposes of every citizen or resident of the United States made during the calendar year, but not including the following items: (a) All the ordinary and necessary expenses of carrying on a business, trade or profession; (b) taxes, except spendings taxes; (c) gifts for charitable or educational purposes; (d) medical and dental services, and funeral expenses; (e) investments made during the year, including real estate, except in the case of the purchase of a home when the taxpayer already owns one; insurance premiums.

The administrative provisions are substantially those of the present personal income tax act.

The proposition is not a novel one, though, as far as I know, it has never been actually tried out. John Stuart Mill advocated such a tax as the only sound income tax. He was met with the objection that it was a rich man's tax, because the rich man could save more than the poor man and would profit more. This was his answer:

"It has been further objected that since the rich have the greatest means of saving, any privilege given to savings is an advantage bestowed on the rich at the expense of the poor. I answer that it is bestowed on them only in proportion as they abdicate the personal use of their riches; in proportion as they divert their income from the supply of their own wants to a productive investment, through which, instead of being consumed by themselves, it is distributed in wages among the poor. If this be favoring the rich, I should like to have it pointed out what mode of assessing taxation can deserve the name of favoring the poor."

Since all income saved and invested will be exempt from surtaxes, it will free surplus liquid capital and make it available for the needs of agriculture, commerce, and industry. It will solve the tax-exempt security problem. It will shut the door to the escape from income taxation by means of losses and gifts. It will promote thrift and discourage extravagance. It can fairly claim the virtues of the sales tax, being in effect a tax on money spent for consumption, without being regressive in character or laying a disproportionate burden on those least able to bear it, and without being open to the serious evils which arise from the pyramiding of the tax. It maintains the principle of a graduated tax, based on what economists have held to be true income for taxation purposes. It does away with the discriminatory burden now laid on partnerships as compared with corporations and puts them on an equal basis. It will yield at least as much as the present law, and while making use of existing machinery, it should prove easier to administer since we shall have eliminated the principal means of evasion.—*Extract N. T. A. See p. 359.*

* This plan was embodied in a bill, H. R. 7867, introduced by Representative Mills, in the House July 20, 1921, and referred to the Committee on Ways and Means.

Remedies Proposed For Improving Our Tax System

Otto H. Kahn

Member of Kuhn, Loeb & Co.

"Reduce the Surtaxes"

I HAVE always favored the principle of a progressive income tax, but, like every other principle, however sound, it must be applied within the rule of reason and with that discrimination which takes account of practical considerations and consequences.

We have applied that principle with vindictive unreason. We have turned a rightful theory into a measure of economic violence, with ill effects that, however indirect in some of their manifestations, are all-pervasive upon the nation.

Much the largest part of the nation's liquid capital is owned by those of small and moderate means, either in the shape of direct investments or through deposits in savings banks or with life insurance and kindred institutions. But the funds so held are not, generally speaking, and ought not to be available for starting and financing new and untried enterprises.

The man of small means ought not, and savings banks and life insurance concerns do not, place funds otherwise than in seasoned investments.

The capital which can afford to take, has an incentive to take, ought to take and heretofore has taken, the risk of starting and financing new enterprise and doing the pioneer work of the country, is that relatively small percentage of the nation's total capital which is represented by the available funds of corporations and of well-to-do individuals.

That is a most valuable function for the nation, and that function has been woefully crippled by the existing surtaxes, both because they have prevented the accumulation of capital and because they have largely impaired the incentive to venturing and risk-taking.

The whole theory, never, prior to the war, tried in practice or countenanced by public opinion, of levying huge toll on the usufruct of capital and the material reward of energy, ability, and enterprise, is not workable. The conception of piling enormous taxes on the top in the expectation that they will not percolate downward is fallacious.

I would suggest that the "normal" tax-rate be reduced by one-quarter and that *all* surtaxes be reduced by one-third for the next fiscal year and by another one-sixth for the year after that.

The total revenue resulting from the lowered rates as compared to those now in force need be affected to a relatively unimportant extent only, and as far as the tax yield from large incomes and profits is concerned, I feel certain that the government would receive more, rather than less.

The tax problem of the United States Government is not difficult. The adjustment which is called for, can be effected without impairing the fortunate and desirable circumstance that in our country, in respect of taxation by and for the Central Government, those of small or moderate means are taxed far less, both directly and indirectly, than they are in any other of the leading countries.

The alternative is not to burden unduly either business or the masses of the people. The idea ought not to be to relieve the former at the expense of the latter.—*Extract F. W. See p. 359.*

Committee of Manufacturers and Merchants on Federal Taxation, Inc.

Otto Cullman, Chairman

"Distinguish Between Earned and Unearned Income"

THIS organization believes that the time has come when, in addition to the graduated feature of our present income tax, a distinction must be made between incomes that are earned and incomes that are unearned, and the earned incomes taxed at a lower rate than the unearned.

We believe that unless this is done the whole industrial organism will eventually go on the rocks.

It is now clear that our present income tax, which makes no distinction between the two kinds of incomes, but which taxes both earned and unearned at the same rate, produces three very grave results:

It penalizes the "producers" and rewards the "non-producers."

It subtracts from the purchasing power of the large majority, decreases the market and cripples business and industry.

It tends to concentrate wealth instead of distributing it.

That the income tax law as it now stands penalizes the "producers" and rewards the "nonproducers" is clear, because it taxes the earnings of the farmer, the earnings of the laborer, the earnings of the merchant, manufacturer, lumberman, mine operator, and professional man—in short, the earnings of all "workers," dollar for dollar, as heavily as it taxes the incomes of those who render no service in return—such as the receivers of our ever-increasing rents of ground, annuities, royalties of natural resources, and interest of stocks and bonds based upon the rich gifts of nature.

That our present income tax also cripples business and industry is evident, because, falling heavily as it does upon all laboring, agricultural, commercial, industrial, and professional classes, it cuts down the purchasing power of the vast majority of our consumers and thereby diminishes the market for all goods produced.

Finally that our present income tax tends to concentrate wealth instead of distributing it is true, because its effect is to impoverish those who are already rich.

Earned incomes are not the basis of "big fortunes"; the unearned incomes are. By overtaxing our farming, lumbering, mining, merchandising, manufacturing, and professional classes, therefore, the present law tends to discourage production and to cut down still further the already insufficient incomes of these various classes.

On the other hand, by undertaxing the beneficiaries of monopoly and special privilege—the receivers of ground rents, royalties, and interest on stocks and bonds based upon the free gifts of nature—the present law tends to foster monopoly, stimulate the spread of vast estates, and add still more to the overgrown fortunes of a favored few.

The time has come when, in our opinion, the present income tax law should be so amended as to distinguish between incomes that are earned and incomes that are unearned, and the earned incomes taxed at a very substantially lower rate than the unearned.

We believe that such an amendment will furnish both directly and indirectly an immense relief to the now overburdened agricultural, laboring, business, and professional classes of the nation, and, moreover, that it will meet with the overwhelming approval of the American electorate.—*Extract C. R. See p. 359.*

Tax Reductions Under the Republican Administration

By John T. Adams

Chairman Republican National Committee

THERE has been a reduction in federal taxes paid on incomes of \$1,539,000,000 since the Republican party came into power, March, 1921. This is a reduction of 50 per cent. This reduction was made possible by the enactment of the Republican tax law during the special session of Congress called by President Harding in the summer of 1921.

An analysis of returns by states shows the reductions in income tax payments have been greatest in those states whose people have modest means, and the least in those states where great wealth is centered. This fact disposed of the demagogic charge that the Republican tax law was framed in the interest of the wealthy and the man of ordinary means was not benefited by it. In all of the agricultural states the reduction in income tax collections has been in excess of 50 per cent. In some states reductions were as great as 65 and 70 per cent as compared with collections under the Democratic law.

In addition to the savings of the American people in income tax payments, the report of the Treasury Department shows that under the new Republican tax law the American consumer has in the past year been relieved of \$98,000,000 in taxes on freight and express shipments; \$64,000,000 in taxes on passenger tickets; \$3,630,000 in taxes on drugs and toilet articles; \$7,000,000 in taxes on merchandise, principally clothing; \$25,660,000 on soft drinks and candy; \$5,000,000 on musical instruments; \$10,855 in taxes on life, accident and other forms of insurance policies, which were paid by the holders; and \$30,000,000 in other taxes which were absolutely repealed by the Republican tax bill.

These items, representing a saving to the tax-paying public, aggregate \$236,000,000. Added to the reductions in the income tax, they make a total reduction in federal taxes in the last two years in excess of \$1,775,000,000.

The lifting of such an enormous burden of public taxes from the backs of the American people is a record in tax reduction never before made by this government and without equal in the fiscal history of any other government. In this, the federal government under the Republican party, is setting an example to the states and local communities in the matter of lessened expenses and reduced taxes.

All this has come about under this administration by reason of Republican legislation combined with the introduction of business methods and the practice of rigid economy by Republican executive officials. The routine expenditures of the federal government have been slashed \$2,000,000,000 since this administration came into power.

June 30 marked the end of the second complete fiscal, or business, year of the federal government since the Republican administration came into power. The following is a summary of some of the most notable business accomplishments of this administration:

Interest-Bearing Public Debt, February 28, 1921.....	\$24,051,684,728
Interest-Bearing Public Debt, June 30, 1923.....	22,007,043,611
Decrease in Interest-Bearing Public Debt.....	\$2,044,641,117

The story of the decrease of routine public expenditures (exclusive of public debts and sinking fund) is told in the following:

Fiscal year ending June 30, 1921 (only three months of which were under the Republican administration).....	\$5,115,927,689
Fiscal year ending June 30, 1922.....	3,372,607,899
Fiscal year ending June 30, 1923.....	3,129,418,776

In other words, the cost of operating the routine departments of the government has been slashed \$2,000,000,000 a year since the Republican administration came into power.

The cost of operating the government last year, exclusive of public debt and sinking fund, was \$243,189,123 less than the first fiscal year under the present administration.

At the beginning of the last fiscal year the government faced an estimated deficit of \$823,000,000. Due to the rigid economy practiced by the executive agencies of the government, the year closed with a cash surplus of \$310,000,000, a difference in favor of the American taxpayer of \$1,133,000,000.

The reduction in appropriations made by Republicans since they came into control of Congress are as follows:

Fiscal year ending June 30, 1920.....	\$6,454,596,649
Fiscal year ending June 30, 1921.....	4,780,829,610
Fiscal year ending June 30, 1922.....	4,066,316,366
Fiscal year ending June 30, 1923.....	3,940,579,667
Fiscal year ending June 30, 1924.....	3,706,777,163

It should be kept in mind that in these appropriations provision is made for the interest on public debt and for the sinking fund, which item alone amounts to \$1,250,000,000 a year. Taking out this item and the appropriations to the Veterans' Bureau, which amounts to over \$400,000,000, it will be seen that the routine expenditures of the government are practically back to a pre-war basis, notwithstanding the fact that practically every department of the government is performing more service than ever before in the history of the United States.

Notwithstanding this downward march of appropriations, every executive official of the government has been instructed to reduce still further his request for appropriations to be submitted to the next Congress, for the fiscal year beginning July 1, 1924.

On March 4, 1921, there were 619,830 civilian employees upon the government payrolls. On March 4, 1923, there were 512,173—a net reduction of 107,657 federal employees in two years of the Republican administration.

When the administration came into power, the market quotation for Liberty and Victory bonds averaged approximately 85. Today they are selling at par. There are about \$20,000,000,000 of these bonds outstanding, held by between twelve and fifteen million individuals. The 15 per cent gain in their value, therefore, represents a gain of \$3,000,000,000 in two years, enriching practically one-sixth the population of the United States.

When the Republican administration came into power, there was no arrangement with foreign governments whereby they should pay either the principal or the interest upon the eleven billion dollars which they borrowed from the United States during the World War. Settlement with Great Britain and Finland has already been effected, involving about 35 per cent of the total foreign loans. Negotiations are under way with other countries for the funding of their debts. This accomplishment means the reduction at once in our public debt.

The Democrats Challenge the Republican Tax Record

By Cordell Hull

Chairman, Democratic National Committee

EVERY few weeks the American people are subjected to grossly confusing and misleading Republican propaganda in regard to public expenditures and economies.

Republicans are talking loudly about urging economy, but are completely silent on the question of tax reductions, which always immediately follow reductions in expenditures.

In February, 1919, the Democratic administration reduced war taxes \$2,000,000,000 below those of the previous year. The Harding administration in its third year only pretended to have made reductions of \$850,000,000, most of which were taken off the very wealthy. Democrats planned general disarmament everywhere and also the combining and consolidation of Federal Bureaus, Divisions, and Departments, both of which steps would have resulted in the most sweeping tax reductions. The Republicans played politics and killed off the first proposal, and proved utterly incompetent or unwilling to carry out the second, with the result that the tax payers can hope for no substantial relief under Republican rule.

The unvarnished truth is that the Republican leadership in the Congress of 1919-20 early decided that instead of proceeding promptly to simplify and make more equitable the war-tax systems it would be better politics to allow the taxpayers to suffer and complain for one or two years and until after the presidential election, and that they might perchance visit their wrath upon the Democratic administration and overlook this duplicity and this deliberate failure of the Republican Congress to perform its plain duty to them.

The recent Democratic administration reduced the public debt from its peak of \$26,596,701,000 on August 31, 1919 to \$24,051,684,000 as February 28, 1921, showing a reduction of \$2,545,000,000 during eighteen months. The Harding administration reduced the public debt from \$24,051,684,000 on February 28, 1921 to \$22,349,707,000 on June 30, 1923, showing a reduction of \$1,701,977,000 during two years and four months.

Republicans now prate loudly through the press about alleged economies and reductions in expenditures during the past two years. The plain truth is that as to each item of reduction of any sort of consequence some lower agency or some phase of expenditures growing directly out of the war has either disappeared automatically or been eliminated by legislative action, and it is solely this character of reductions and so-called economies that are being grossly distorted by Republicans into real peacetime retrenchment of expenditures, which is the only test of actual economy. If this were any sort of a test, the recent Democratic record would make so-called Republican economies appear ridiculous in their smallness.

In February, 1919, the Democratic administration by one act repealed \$15,412,000,000 of appropriations and authorizations, thereby saving the taxpayers that huge amount in virtually the precise sense in which the Harding administration has "saved" the people around \$2,000,000,000 since 1920. The manner in which these Republican "savings" were principally effected relates to the following reductions for the fiscal year 1922 below the expenditures for 1920 and 1921:

Expenditures of War Department in the direction of a peace basis reduced \$712,594,000; in the Navy Department, \$192,000,000; in the Shipping Board, \$57,000,000; in the Railroad Administration \$787,000,000; in the Grain

Corporation, \$83,000,000; in the Sugar Equalization Board \$13,000,000; this totals \$1,800,000,000, and comprises the bulk of so-called Republican economies since 1920. It is true that the Budget Bureau has effected quite a number of purely minor savings, but they are entirely too small to figure materially in the Republican boasts and figures of "savings." The most ignorant person knows that a government emerging from war can only return gradually to a normal basis of economy as the same relates to the annually recurring expenditures for the government establishments as the same existed prior to the war. Every Treasury publication clearly shows that the present fixed annual expenditures are several hundred million dollars above the corresponding level maintained by the Democratic administration prior to the war.

Republican National politicians just now are attempting to divert attention from their failure to reduce Federal expenditures and taxes by wide publicity to the effect that immense increases in state, county and municipal expenditures and taxes offers a principal ground of complaint by the taxpayers. Every casual newspaper reader knows that Republicans have been in overwhelming control of more than two-thirds of the state, county and municipal governments during the past four to eight years, and that Republicans are responsible for piling up three-fourths of the more than \$2,000,000,000 increases in state, county, and municipal expenditures and taxes during recent years.

The cardinal policies of the Democratic party have always been based on equitable taxation with the lowest levy that would meet the necessities of the Government, administered with economy and efficiency in all its departments. Under these wise and beneficent policies, which the opposition, even, had ceased to question for many years prior to the Civil War, the annual expenditures of the Federal Government only rose to \$63,000,000 from 1789 to 1860. During this period a number of wars were fought and most of the great public domain west of the Mississippi was annexed. The average annual increase of expenditures covering more than one-half the Nation's history was less than \$800,000. For the first full year after the Civil War the Republican Congress only reduced expenditures from the highest war peak a little over one-half. As late as 1868, more than three full years after the war, the level of ordinary expenditures still stood at \$207,000,000, or more than three times the prewar level, excluding new pensions and interest on the new war debt, whereas the Treasury officials estimated that a fair normal annual increase from 1861 should have placed the expenditures for 1869 at \$100,000,000. The Harrison administration increased the average of annual expenditures over the first Cleveland administration \$95,000,000, while the second Cleveland administration conducted the Government at a cost of \$6,559,000 less than the preceding Harrison administration.

The McKinley administration increased the average annual expenditures \$45,000,000, over those of the last Cleveland administration, or a total for the four years of \$180,000,000, excluding the entire expenses of the Spanish-American War. The last four years of the Roosevelt administration piled up expenditures of \$1,696,000,000 in excess of the last four years of Cleveland's administration, or an average annual increase of \$424,000,000. The Taft administration pursued the settled Republican peace and war policy of waste and extravagance.

An Explanation of Tax Terms Appearing in This Number

(Continued from page 337)

of Customs and the Director of the Special Agency Service. These officers supervise the activities of the field service of the customs organization.

Duty: This term is used to describe the tax imposed on imported merchandise. Customs duties may be divided into three general classes, specific, ad valorem, and mixed or compound. A specific duty is computed on the quantity of the merchandise imported, that is, weight, measure, or number. Ad valorem duty is assessed on the wholesale market value in the principal markets of the country of exportation or on the cost of production. Compound duties are assessed on an article receiving by law both specific and ad valorem duty or an article classed according to value and receiving a specific duty for each class.

Estate Tax: This is a tax imposed upon the transfer of the net estate by a decedent dying after the passage of the act. It is a tax imposed upon the privilege of transferring, and is neither a property nor an inheritance tax.

The net estate is the difference between the gross estate and the total of authorized deductions.

The rates of tax are graduated ranging from 1% on the part of the net estate not in excess of \$50,000, to 25% on that part in excess of \$10,000,000.

A specific exemption of \$50,000 is allowed in the estate of every resident decedent.

Gross estate includes property owned by the decedent at the time of death without diminution for dower or similar interests of surviving spouse, property transferred through a general power of attorney, or transferred during decedent's life-time in contemplation of death, or to take effect at or after death, and all life insurance payable to estate and in excess of \$40,000 as to other life insurance.

Generally speaking, deductions consist of debts, administration expenses, losses from fire or other casualty during settlement of estate, property previously taxed in a prior estate, transfers for public, educational or religious uses and the specific exemption of \$50,000.

Representatives of estates are required to file a preliminary notice with the local collector within two months after death, or after qualifying, and an authorized return within one year after the date of death.

Payment of the tax becomes due one year after the date of death and if not paid within one year and six months after the date of death, interest attaches.

Excise Tax: An excise tax is a tax levied upon the privilege of doing or engaging in a business or occupation. The capital stock tax is an excise tax.

Direct Tax: A direct tax is a tax imposed immediately upon the individual or corporation, such as a property tax or an income tax.

Indirect Tax: An indirect tax is a tax such as customs duties, which tax is paid indirectly by the purchaser of an imported article. The tax, as such, is not paid by the purchaser, but is included in the cost of the article purchased.

Income Tax: An income tax is a tax levied upon income. Income is defined by the Supreme Court in the case of *Eisner v. Macomber* to be the gain derived from capital, from labor, or from both combined, provided it be understood to include profit gained through a sale or conversion of capital assets.

Internal Revenue: Within the Treasury Department there has been established a Bureau of Internal Revenue charged with the responsibility of collecting under the various revenue acts taxes derived from sources within the country itself as distinguished from customs duties imposed on imports.

Revenue Act: A revenue act is a law enacted by the legislative branch of the Government for the purpose of levying taxes for the support of the Government.

Sales Tax as applied to the Revenue Act of 1921 relates to taxes imposed under Title VI of the act, Tax on Beverages and Constituent Parts thereof, and tax imposed under Title IX, Excise Taxes; also included in the sales tax is a tax under Title V on Telegraph and Telephone Messages, and under Title VIII on Admissions and Dues. The Sales Taxes proper under Titles VI and IX are taxes imposed on either the manufacturer or the dealer and are imposed either as a certain amount per unit of the article or a certain percentage of the sales price of the article; for example, the tax on beverages and constituent parts thereof imposes a tax on certain cereal beverages, unfermented fruit juices, still drinks, natural or artificial mineral waters or table waters at 2 cents a gallon, upon certain finished or fountain sirups 5 cents per gallon, and upon certain carbonic acid gas 4 cents per pound. The taxes imposed under Title IX run for the most part at 3%, 5%, and 10%, although the tax on dirk knives, daggers, etc., imposed under subdivision (9), section 900, is a tax of 100% of the price for which the articles sell.

The tax on jewelry and articles made of gold, silver, and other precious metals, that is, the tax imposed under section 905, is imposed upon the dealer in the articles instead of upon the manufacturer. This tax is imposed at the rate of 5% of the price for which the articles sell.

The so-called sales taxes are, to a large extent, imposed upon articles which might be termed luxuries, such as automobiles, cameras, photographic films and plates, candy, cigar or cigarette holders and pipes composed wholly or in part of meerschaum, liveries, livery boots and hats, hunting and shooting garments, yachts and motor boats, also carpets, rugs, trunks, valises, purses, pocket-books, fans, etc., selling in excess of certain fixed prices.

The tax on telephone, telegraph and radio messages is imposed at 5 cents per message where the charge exceeds 14 cents but does not exceed 50 cents. If the charge for the message exceeds 50 cents, then the tax is 10 cents. This tax is payable by the person paying for the service.

The tax on admissions is imposed at the rate of 1 cent for each 10 cents or fraction thereof charged for admission except that where the charge for admission does not exceed 10 cents there is no tax. This tax is payable by the person paying for the admission. The tax on dues is payable by the person paying dues in certain clubs and is imposed at the rate of 10% of the amount paid as dues or membership fees if the dues or fees with respect to the active membership are in excess of \$10.00.

Tariff Act: Tariff acts provide not only for the collection of impost duties in accordance with the schedules of rates, but contain also administrative provisions which govern the procedure followed in the collection of duties and in the enforcement of other laws for the protection of the revenue. The Tariff Act of 1922 contains a revision and codification of the customs administrative laws.

Recent Government Publications of General Interest

Agriculture

APPLE BY-PRODUCTS as Stock Foods; by G. P. Walton and Others. (Department Bulletin No. 1166.) *Price*, 5 cents.

Utilization of apple by-products, manufacture of dried apple by-products, etc.

THE BOLL-WEEVIL PROBLEM; by W. D. Hunter and Others. (Farmers' Bulletin No. 1329.) *Price*, 5 cents.

Origin and present distribution of the boll-weevil, methods of control, etc.

CULTURE OF CITRUS FRUITS IN THE GULF STATES; by E. D. Vosbury and Others. (Farmers' Bulletin No. 1343.) *Price*, 5 cents.

History of the Florida citrus industry, citrus trees grove management, cost and profits in citrus growing, publications on citrus fruits.

GREASEWOOD AS A POISONOUS PLANT; by C. Dwight Marsh and Others. (Department Circular No. 279.) *Price*, 5 cents.

Description of the plant, reports of stock poisoning by greasewood, experimental work.

GROWING AND UTILIZING SORGHUMS FOR FORAGE; by H. N. Vinall and Others. (Farmers' Bulletin No. 1158, reprint.) *Price*, 5 cents.

Areas suited for sorghum production, soil relations, classification of sorghum varieties, date and methods of seeding, diseases, insect enemies.

HISTORY AND STATUS OF TOBACCO CULTURE; by W. W. Garners and Others. (Separate from Year book, 1922, No. 885.) *Price*, 10 cents.

World production, cost of production, financing tobacco production, marketing, exports and imports, domestic consumption, etc.

IMPORTS AND EXPORTS OF AGRICULTURAL PRODUCTS; by Nat C. Murray and Others. (Separate from Yearbook, 1922, No. 880.) *Price*, 5 cents.

Imports and exports of agricultural products for three years ended December 31, 1921, including principal farm products.

OATS, BARLEY, RYE, GRAIN SORGHUMS, Seed Flax, and Buckwheat; by C. R. Ball and Others. (Separate from Yearbook 1922, No. 891.) *Price*, 15 cents.

World production, markets and marketing, costs of production, and cropping system, etc.

PRODUCTION OF SYRUP FROM SWEET POTATOES; by H. C. Gore and others. (Department Bulletin No. 1158.) *Price*, 10 cents.

Commercial possibilities and experimental work, etc.

TOMATOES AS A TRUCK CROP; by W. R. Beattie. (Farmers' Bulletin No. 1338.) *Price*, 5 cents.

Soils adapted to growing tomatoes, crop rotation, varieties of tomatoes for the market, hotbeds and coldframes, growing tomato plants, etc.

Animal Breeding

ESSENTIALS OF ANIMAL BREEDING; by George M. Rommel. (Farmers' Bulletin No. 1167, reprint.) *Price*, 5 cents.

Livestock improvement, some incorrect ideas of heredity, etc.

Automotives

AUTOMOTIVE MARKETS IN CHINA; British Malays, and Chosen; by William I. Irvine. (Department of Commerce, special Agents Series No. 221.) *Price*, 15 cents.

Business conditions and practices, packing and shipping conditions, etc.

Birds

REPORT ON BIRD CENSUSES in the United States, 1916 to 1920; by May Thacker Cooke. (Department Bulletin No. 1165.) *Price*, 5 cents.

North of Maryland and east of the Plains, Southeastern States and Western States.

Constitution

THE DECLARATION OF INDEPENDENCE and the Constitution of the United States of America. *Price*, 10 cents.

Cooperage

STAVE TRADE IN FOREIGN COUNTRIES; (Department of Commerce, Miscellaneous Series No. 118.) *Price*, 15 cents.

Includes statistics of exports of cooperage products from the United States.

Education

LIST OF BULLETINS OF THE BUREAU OF EDUCATION, 1906-1922, with Index by Author, Title, and Subject; by Edith A. Wright. (Education Bureau Bulletin No. 1923, No. 35.) *Price*, 10 cents.

Electrical Insulating Materials

METHODS OF MEASUREMENT of Properties of Electrical Insulating Materials; by J. H. Dollinger and J. L. Preston. (Standards Scientific Paper No. 471.) *Price*, 15 cents.

Phase difference and dielectric constant, voltage effects at radio frequencies, electrical resistivities, mechanical properties, thermal expansivity, effects of chemicals, etc.

Food Products

LAMB AND MUTTON AND THEIR USE IN THE DIET. (Farmers' Bulletin 1324.) *Price*, 5 cents.

Use of lamb and mutton on the farm, utilizations of the fat, refuse and waste, selection and use of the meat, cooking of tender meat, cooking of tougher cuts, recipes, etc.

Fur Bearing Animals

ECONOMIC VALUE OF NORTH AMERICAN SKUNKS; by David E. Lantz. (Farmers' Bulletin No. 587, reprint.) *Price*, 5 cents.

Kinds, scent glands, breeding habits, food, protection, commercial value, trapping, raising skunks for their fur, with summary.

HOME TANNING OF LEATHER AND SMALL FUR ANIMALS; by R. W. Frey and Others. (Farmers' Bulletin No. 1334.) *Price*, 5 cents.

Having hides tanned, buying leather by the side, home tanning, tanning fur skins.

Dairy Products

BUTTER, CHEESE, AND CONDENSED MILK, Census of Manufactures, 1921; *Price*, 5 cents.

Comparison with previous years, relative importance of leading states, detailed statistics of products, etc.

Government Specifications

STANDARD SAMPLE—General Information; (Bureau of Standards Circular No. 25, reprint.) *Price*, 5 cents.

Function of standard samples, preparation of materials, general consideration, ordering and shipping regulations.

Hog Raising

DISEASES, AILMENTS, and Abnormal Conditions of Swine; by T. P. White. (Farmers' Bulletin No. 1244.) *Price*, 5 cents.

HOG PRODUCTION AND MARKETING; by E. Z. Russell and Others. (Separate from Yearbook, 1922, No. 882.) *Price*, 15 cents.

Uses of pork and lard, development of the hog industry, diseases and ailments, marketing, tariff duties on swine, pork, and port products.

Home Economics

THE FARM KITCHEN AS A WORKSHOP; by Anna Barrows. (Farmers' Bulletin No. 607, reprint.) *Price*, 5 cents.

Size, ventilating, heating, and lighting, porches and screens, water supply, the kitchen as laundry, etc.

Honey

HONEY AND ITS USES IN THE HOME; by Caroline L. Hunt and Helen W. Atwater. (Farmers' Bulletin No. 653, reprint.) *Price*, 5 cents.

Food value, uses, etc.

TRANSFERRING BEES TO MODERN HIVES; by E. L. Sechrist, Agricultural Assistant. (Farmers' Bulletin No. 961, reprint.) *Price*, 5 cents.

Advantages of movable-frame hives, time for transferring, methods of transferring, requeening, etc.

Ice

MANUFACTURE OF ICE, Census of Manufactures, 1921. *Price*, 5 cents.

Detailed statistics of products and equipment, graphic distribution of the industry.

Jarbridge Mining District

THE JARBIDGE MINING DISTRICT, NEVADA, with a note on the Charleston District by Frank C. Schrader. (Geological Survey Bulletin No. 741.) *Price*, 20 cents.

Location, previous descriptions, productions, climate, vegetation, geology, mineral deposits, with index and illustrations.

Kotsina Kuskulana District

THE KOTSINA KUSKULANA DISTRICT, Alaska; by Fred H. Moffit and J. B. Mertie, Jr. (Geological Survey Bulletin No. 745.) *Price*, 40 cents.

Geology, mineral resources, mines and prospects, with index and illustrations.

THE CONGRESSIONAL DIGEST

Lumber

DIRECTORY OF EXPORTERS OF AMERICAN LUMBER AND WOOD PRODUCTS. (Department of Commerce, Miscellaneous Series, No. 120.) *Price, 10 cents.*
List of firms, raw and hewn timber, sawmill products, excelsior, cooperage, dimension and specialties, etc.

Machinery

MACHINERY, TEXTILE MACHINERY, MACHINE TOOLS, CENSUS OF MANUFACTURES, 1921. *Price, 5 cents.*
Description of industry, assignment of establishment to industries, omission of certain inquiries, imports and exports, etc.

Milk

MILK AND ITS USES IN THE HOME. (Farmers' Bulletin No. 1359.) *Price, 5 cents.*
Composition and food value of milk, milk for infants, bacteria in milk, pasteurization of milk, milk products, use of milk in cooking, etc. Revision of and supersedes Farmers' Bulletin No. 1207.

Mine Ventilation

UNDERGROUND VENTILATION AT BUTTE; by Daniel Harrington. (Mines Bulletin No. 204.) *Price, 25 cents.*
Mining conditions in the Butte District, factors influencing composition of mine air, with index, tables and illustrations.

Minerals

THE COMMERCIAL GRANITES OF NEW ENGLAND; by T. Nelson Dale. (Geological Survey Bulletin No. 738.) *Price, 50 cents.*
Scientific and economic discussion, geologic factors in granite quarrying, bibliography of economic geology of granite, glossary of scientific and quarrying terms, with index, and illustrations.
MINERAL RESOURCES OF THE UNITED STATES, 1920; part 1, Metals. G. F. Laughlin, geologist in charge. *Price, 90 cents.*
The production of various metals found in the United States.

SODIUM SULPHATE, ITS SOURCES AND USE; by Roger C. Wells. (Geological Survey Bulletin No. 717.) *Price, 5 cents.*
Minerology of principal compounds of sodium sulphate, solubility of sodium sulphate, salt cake, sulphate process of making wood pulp, with index and illustrations.

Oils

ESSENTIAL OILS, CENSUS OF MANUFACTURES, 1921. *Price, 5 cents.*
Description of the industry, assignment of establishments to industries, relative importance of leading states, detailed statistics of products, cities, etc.

Paper

PAPER AND WOOD PULP, CENSUS OF MANUFACTURES, 1921. *Price, 5 cents.*
Description of the industry, assignment of establishment to industries, omission of certain inquiries, comparison of previous years, statistics of states, cities, detailed statistics of products, etc.

Public Laws

STATUTES OF THE UNITED STATES OF AMERICA, passed at the Fourth Session of the Sixty-seventh Congress, 1922-1923, and Concurrent Resolutions of the Two Houses of Congress, Treaties, and Executive Proclamations. *Price, \$1.00.*

Rabies

RABIES OR HYDROPHOBIA; by John R. Mohler. (Farmers' Bulletin No. 449, reprint.) *Price, 5 cents.*
Causes of the disease, symptoms in dogs, cattle, cats, and other animals, post-mortem appearances, distribution and prevalence, etc.

Rubber

THE RUBBER INDUSTRY, CENSUS OF MANUFACTURES, 1921. *Price, 5 cents.*
General statistics, statistics of wage earners, for selected states, for the United States as a whole, statistics of production by states, imports and exports, detailed statistics for states and summary for cities.

Rural Planning

RURAL PLANNING—THE SOCIAL ASPECTS; by Wayne C. Nason. (Farmers' Bulletin No. 1325.) *Price, 5 cents.*
Specific examples of rural planning, etc.

Shoe Leathers

WEARING QUALITIES OF SHOE LEATHERS; by F. P. Feitch and others. (Department Bulletin No. 1145.) *Price, 10 cents.*
Purpose, plans, and results of investigation, with summary.

Stock Raising

MULE PRODUCTION; by J. G. Williams. (Farmers' Bulletin No. 1341.) *Price, 5 cents.*
Distribution of mules in the United States, advantages of the mule as a work animal, feeding and care of mules, etc.

Supreme Court Decisions

UNITED STATES REPORTS, Vol. 259, Cases Adjudged in the Supreme Court at October Term, 1921, from May 2, 1922, to and including June 5, 1922; Ernest Knabel, Reporter. *Price, \$2.15.*
Covers table of cases reported, table of statutes cited, cases adjudged in the Supreme Court of the United States at October term, 1921, with index.

Tariff Information Surveys

TARIFF INFORMATION SURVEYS, on Articles in Paragraphs 293 to 303 inclusive, of the Tariff Act of 1913 and related articles in other paragraphs. *Price, 15 cents.*
Carpets and rugs of wool.

Trade Associations

COMMERCIAL AND INDUSTRIAL ORGANIZATIONS OF THE UNITED STATES; (Department of Commerce, Miscellaneous Series No. 99, revised edition, March 1, 1923.) *Price, 20 cents.*
List contains 11,000 names made up of approximately 1,500 interstate, national, and international; 2,000 state; 7,700 local organizations. The addresses of the active officers of the associations are included in the present edition.
LEGAL PHASES OF COOPERATIVE ASSOCIATIONS; by L. S. Hulbert. (Department Bulletin No. 1106.) *Price, 15 cents.*
Incorporated associations or corporations, contracts, promissory notes, agencies, federal trade commission, income taxes, unincorporated associations, with appendix.
TRADE ASSOCIATION ACTIVITIES; prepared by L. E. Warford and Richard A. May. (Department of Commerce.) 368 pp. *Price, 50 cents.*
This useful book is the latest addition to the growing literature on trade associations. There is an introduction by Herbert Hoover supporting trade associations, a series of appendices covering the trade association in its foreign and historical aspect. The main body of the book is given over to the activities of the American trade association.

Water-Gas Tar

WATER-GAS TAR EMULSIONS; by W. W. Odell. (Mines Technical Paper No. 304.) *Price, 10 cents.*
Laboratory tests, quality of water-gas tar in the various drips of a gas works, tars from different gas works, condensing system and rate of cooling the gas, methods of separating water from emulsified tar, etc.

Zinc

THE ELECTROTHERMIC METALLURGY OF ZINC; by E. M. O'Harra. (Mines Bureau Bulletin No. 298.) *Price, 15 cents.*
Technique of the subject.

Per Capita Tax Comparisons in This and Other Countries

PER capita expenditures in the fiscal year 1920-1921, with foreign currencies converted at par of exchange, were \$87 in the United States, \$164 in the United Kingdom, \$266 in France, \$162 in Italy and \$18 in Japan. Computed on the pre-war purchasing power basis, per

capita expenditures during the fiscal year 1920-1921 were \$45 for the United States, \$61 for the United Kingdom, \$77 for France (calendar year 1921), \$26 for Italy, \$56 for Germany and \$7 for Japan.—*Extract N. I. C. B. No. 55.*

Notes on Foreign Governments

By ANNIE M. HANNAY, M. A., University of Glasgow

These notes will be continued from month to month and when the Foreign Parliaments are in session a review of current legislation in the largest countries will be given.

Additional detailed information in regard to foreign governments may be procured through the CONGRESSIONAL DIGEST Information Service for a nominal charge.

Questions and answers will be published from time to time in this Department. Address your inquiries to Foreign Department, CONGRESSIONAL DIGEST, Munsey Bldg., Washington, D. C.—*Editor's Note.*

The British Parliament Adjourns

Digest of Official Record

In the House of Commons

(Continued from July-August issue)

FUNDING THE BRITISH DEBT TO AMERICA, DISCUSSED BY THE PRIME MINISTER

AT the end of the war the United States Treasury held more than four thousand million dollars' worth of British certificates of indebtedness, payable on demand in dollars in America, with interest at 5% per annum accruing. On February 9, 1922, a World War Foreign Debt Commission was formed by Act of Congress to deal with the question of funding the various demand obligations which the United States held from foreign governments. The Act stipulated that the interest on those long-term bonds should not be at a less rate than $4\frac{1}{4}\%$, and that the period of maturity should not exceed 25 years. Mr. Baldwin went to America to see whether the Debt Commission could be persuaded to recommend to Congress more favorable terms. A provisional agreement was finally arrived at, that the loan should be for 62 years and that the rate of interest should be 3% from 1923 to the end of 1932 and $3\frac{1}{2}\%$ after that for the rest of the term, with an additional $\frac{1}{2}\%$ for amortization. It was also agreed that within the first five years, if it should be for the convenience of Britain, a half year's interest in any year might be postponed, and the amount funded and added to the principal. It was further agreed that during the term of the loan Britain should be able to buy United States bonds issued since April 6, 1917, such bonds to be taken at par and accrued interest. These terms were confirmed by Congress, with much demonstration of friendliness to Britain. They were fair and honest terms, and he wished to express his sense of gratitude to the American Debt Commission, the members of which had done everything in their power to make the payment as easy and convenient as possible.—*July 4.*

THE PRIME MINISTER DEFINES THE BRITISH RUHR POLICY

The Prime Minister (Mr. Stanley Baldwin) defined the policy of the British Government with regard to the Ruhr and the German Note of June 7. He emphasized the fact that the sole ground of divergence among the Powers concerned was as to the most effective means of reaching the ends vital to all, namely, the payment of reparations, and the recovered security of Europe. His whole speech was instinct with the friendliest feeling for France and a desire for her cooperation. Britain was determined that Germany should make reparation to the fullest extent of her capacity. But, should she be required to pay in excess of her capacity, the result would be fatal to the Allies and to the whole of Europe. The British Government was of the opinion that the indefinite occupation of the Ruhr by the French and Belgians was fraught with great peril. The recovery of the world was in danger, and peace was at stake. The situation could not be left to right itself. The German note of June 7 contained the offer of concrete guarantees, and made certain suggestions which should not be ignored. As France and Belgium were

not willing to take the initiative, the British Government would prepare a draft reply, and would submit it to the Allies in the hope of arriving at an agreement with them as to terms.—*July 12.*

July 13—Third reading of the Intoxicating Liquor (Sale to Persons under 18) Bill. Rejection moved by Sir F. Bannbury. Vigorous reply by Viscountess Astor. The bill was passed by 257 votes to 10.

July 16—Discussion was resumed on Mr. Snowden's resolution, moved four months ago for the "gradual supersession of the capitalist system by an industrial and social order based on public ownership and democratic control of the instruments of production and distribution."

Sir John Simon resumed the debate with an effective speech. The essence of the proposal, he said, was the universality of its application. It would substitute public ownership and democratic control for private ownership, not merely of land and mines, but of railways, banks and ships, of every factory and every workshop, of every retail shop, and, supposedly, of every newspaper. The opponents of the proposal, while alive to the evils of the existing system, were convinced that those evils were to be avoided, not by destroying the existing system root and branch, but by controlling its operation with a constant view to the common good. Taking as an example the case of Queensland, where the Labour party had been in power since May, 1915, and had introduced a comprehensive system of nationalization, Sir John pointed out that in 1921, Queensland had more unemployment, not only than any other state in Australia, but than any country in the world which tabulated unemployment statistics. Socialism could not compel the consumer to buy more commodities or to pay for more services. The capitalist system in Britain had supported a far larger population than could possibly be supported without it.

Moreover, if private enterprise were destroyed, revenue could not be raised by taxing its profits. What would become of Britain's export trade in competition with non-Socialist countries? And, how in a Socialist state could conscription of labor be avoided or penal labor institutions for those who refused to accept the occupations assigned to them? Industry must be humanized, not by putting it into the straight jacket of universal socialism, but by putting public needs and human rights before private interests, and by doing it without sapping the energies or undermining the liberties of the British people.

Mr. Lloyd-George pointed out that Britain was the worst country in the world in which to make such a serious industrial experiment. Gigantic efforts had been made in the last few years to cope with the problems of unemployment and housing, but they were not enough. Those who were most anxious to preserve the present system should also be the most anxious to remedy the evils arising out of it.

In the last two years the aggregate wages of the working classes had gone down by 540,000,000 pounds per annum.

The British Parliament Adjourns—*cont'd*

The increase in the cost of living last year was 80% over the pre-war period. Britain was more dependent upon foreign trade than any other country in the world. Present exports were 70% of what they were before the war. The external debt was 300,000,000 pounds more than the total national debt before the war. Rates and taxes had trebled and quadrupled, and the population had increased. As soon as exchanges were stabilized—no matter at what figure—Britain would be face to face with rivalry and competition on the part of a newly-equipped France and a newly-equipped Germany. He therefore called on the Government for an inquiry into the causes of discontent, into the post-war conditions, with a view to arriving at the real facts and the best method of meeting them.

FRENCH DEBT TO GREAT BRITAIN

July 18—In reply to a question as to the total amount of the French debt to Great Britain, Major Hennessy (Lord of the Treasury) replied that the debt of the French Government to His Majesty's Government, as on March 31, 1923, was approximately £10,000,000 pounds, including accrued interest. The debt was payable in pounds sterling, with the exception of 8,400,000 pounds, payable in United States dollars.

July 20—Third reading of the Universities of Oxford and Cambridge Bill agreed to without a division.

MILITARY EXPENDITURE AND DISARMAMENT

July 23—Mr. Ramsay Macdonald (Labour Leader) moved the Labour Party resolution, deploring the enormous and growing expenditure on the naval and air forces and on other military preparations, and urging the Government to call an international conference to consider a program of national safety based upon the policy that by disarmament alone could the peace and liberty of small and large nations alike be secured. He urged the House to pass it as an invitation to the whole world to put an end to war, and give the world a chance of living in peace.

The Secretary of State for Air (Sir Samuel Hoare) pointed out the practical difficulties in the way of disarmament, especially in regard to the air force. Disarmament must be general, and moral disarmament must precede material disarmament. The feelings of suspicion and insecurity that were undermining the bases of European peace must be laid aside. These considerations made the demand of the Labour party for an immediate international conference seem unwise. Such conferences were dangerous unless a program had been carefully worked out. The recent increase in the British Air Force had been a regrettable necessity. It was much more difficult to limit the air force than to limit the number of capital ships.

The Prime Minister said that the Government believed that any attempt at present to convene an international conference would not only not lead to success, but would lead to the indefinite postponement of any possibility of achieving the ends desired by all. The problem could not be approached with any chance of success, until the condition of Europe with regard to reparations and the security of frontiers was settled. The motion was rejected by 286 votes to 169.

AMERICAN ARMY OF OCCUPATION

July 30—Sir W. Joynson-Hicks, in answer to a question, said that an agreement had been signed between the Governments of the United States, France, Italy, Belgium and Britain with regard to the reimbursement of the costs of the American army of occupation.

The amount due the United States would be payable in 12 equal yearly installments out of reparations.

The receipts of the British Government under the Repara-

tions Recovery Act were not to be regarded as available for this purpose.

The first annual installment was payable on December 31, 1923. These yearly installments would not take precedence of the sums due to Britain in respect of the British army of occupation up to December 31, 1926, but would do so after that date.

July 31—In reply to a question as to the cost of maintaining armies in Great Britain, France, Germany, Russia and the United States for the years 1913 and 1922, Lieut.-Colonel Guinness quoted the following figures:

Great Britain, 1913-14: 27,700,000 pounds (exclusive of aviation), 1922-23: 60,800,000 pounds.

Russia, 1913-14: 647,000,000 roubles (inclusive of aviation), 1922 Jan.-Sept. 556,000,000 roubles.

France, 1913: 1,110,845,109 francs; 1922: 3,597,916,659 francs (exclusive of French army in Germany).

Germany, 1913: 60,000,000 pounds; 1922: 3,341,477,038 marks.

United States, 1913: 320,800,000 dollars; 1922: 361,075,165 dollars.

August 2—On being asked to state the percentage of the British military forces to the civilian population and to give the comparative figures for France, Belgium, Poland, Russia, Japan, Rumania, Jugo-Slavia and Czechoslovakia, Lieut.-Colonel Guinness gave the following table:

France	1.24%	Japan	0.4 %
Belgium	1.6 %	Rumania	0.75%
Poland	1.1 %	Jugo-Slavia	0.9 %
Russia	0.62%	Czechoslovakia	1.11%

THE PRIME MINISTER REVIEWS RUHR DEVELOPMENTS

On June 7 last the German Government, having considered the replies of the Allied Governments to their first note of May 2, communicated to the latter a further memorandum containing revised proposals for dealing with the questions of Reparations and the Ruhr.

Communications then passed between the Allied Governments and the French and Belgium Governments in particular exchanged opinions with His Majesty's Government on the subject.

A month later—on July 12—a statement was made in both Houses of Parliament as to the position of His Majesty's Government, and the necessity of action was strongly emphasized. His Majesty's Government said that they would assume the responsibility of framing a draft reply, which they would forward for the consideration of their Allies.

Such a reply was sent, with a covering note, to the Allied Governments of France, Belgium, Italy and Japan on July 20, urging an examination by impartial experts, in cooperation with the Reparation Commission, into Germany's capacity for payment. The economic value of any guarantees offered by the German Government must depend largely upon such factors as the stabilization of the mark and the balancing of the German budget. No guarantees could be effective unless provision were made for some form of international control of German financial administration. Germany was advised to cease all passive resistance. The covering notes urged the Allies to arrange for discussions for the purpose of elaborating a comprehensive plan for a general and final financial settlement.

The replies received had not been such as to furnish material for an Allied answer to the German note, and, therefore, the British Government had decided to lay before Parliament the papers which recorded their own views, and invited their Allies to agree to the publication of their notes or statements, in the hope that such action might assist in de-

The British Parliament Adjourns—cont'd

termining the real dimensions of the problem, and convince the world of the imperative necessity of prompt and united action to deal with it.

The same statement was read by Lord Curzon in the House of Lords. After a debate the Prime Minister made a general reply. Britain regarded the Ruhr policy as not well calculated to achieve the common end in view. Her Allies regarded it as a good method to achieve that end. That was a perfectly honest and genuine difference of opinion as to methods, whereas they were agreed that what they wanted was to secure the payment of adequate reparations, as soon as possible. The Ruhr occupation was postponing the payment of reparations, and was hurting directly and cumulatively the trade of Britain and of the world.

It would be untrue to say that the unemployment in Great Britain was due primarily to the occupation of the Ruhr. But it was true to say that the occupation of the Ruhr was beginning to be felt in the trade of the world, and, that the longer it lasted, the more heavily and grievously would it be felt, for there was no isolated unit in the industrial life of the world.

Germany's gold was being reduced, and her industrial shares were passing into hands of foreigners. No one could tell what the result of a collapse or a surrender would be. But whatever it meant, it would mean less reparations, and a longer time before Germany's financial system could be restored.

RUSSIAN MARKETS AN IMPORTANT FACTOR

The largest potential market in Europe was Russia. Sooner or later that market would be open, and the German exports would go largely into Russia. Russia might in the future act as a shock absorber, to take from the world production of increased trade so much of the exports of Germany as would allow the German portion to be absorbed in the whole without causing Britain apprehension. Therefore, with the settlement now being sought was wrapped up the financial stability of all Europe. The Government would leave no stone unturned to secure a settlement fully and finally at the earliest possible date.

Parliament adjourned until November 13, 1923.

Italy

The Cabinet Meets

July 9—At a Cabinet meeting the Minister of Finance proposed the abolition of succession duties in the case of direct descent, and the reduction of duties in the case of property being willed to collateral or other heirs. The proposal was unanimously approved, Signor Mussolini declaring that encouragement of family fortunes and family savings was a sound national policy.

The Minister of Finance also made a statement regarding the yield of taxation in the financial year 1922-23, which

ended on June 30. The revenue amounted to 12,781,000,000 lire, or 1,795,000,000 lire more than had been estimated. The returns from direct taxation were 4,272,000,000 lire, from industrial monopolies 3,091,000,000 lire, from lotteries 229,000,000 lire. The new stamp duty on sales promised well, having produced nearly 130,000,000 lire in the first three months of the year. Indirect taxation had produced 2,750,000,000 lire against 2,187,000,000 lire obtained in the previous year, representing an increase of 563,000,000 lire.

The Italian Parliament Adjourns

Digest of Official Record

IN THE CHAMBER OF DEPUTIES

(Continued from March issue)

July 21—The Electoral Reform Bill was passed by 223 votes to 123. Signor Mussolini's measure stipulates that the elections shall take place on the national ticket, and that to the party obtaining a majority of votes shall be assigned two-thirds of the seats, the remaining third being assigned

proportionately to the other parties. It is intended to provide the country with solid ministries that can undertake constructive legislation without interference from small political combinations.

Parliament adjourned.

Sources From Which Material Used in This Number is Taken

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—NEXT MONTH—

OUR NATIONAL TRANSPORTATION PROBLEM

HISTORICAL DEVELOPMENT OF OUR TRANSPORTATION SYSTEM

SKETCH OF FEDERAL RAILROAD LEGISLATION

THE TRANSPORTATION ACT OF 1920

OUTLINE OF PLANS ADVANCED TO SOLVE THE RAILROAD SITUATION

WITH FULL PRO AND CON DISCUSSION

THE HARDING PLAN—CUMMINS PLAN—PLUMB PLAN—NEW ENGLAND PLAN

GOVERNMENT REGULATION, CONTROL, OWNERSHIP

RAILROAD CONSOLIDATION

THE PROGRESS AND POSSIBILITIES OF ELECTRIFICATION

THE COORDINATION OF WATER, RAIL, AND HIGHWAY TRANSPORTATION

THE INTERSTATE COMMERCE COMMISSION

ITS ORIGIN, ORGANIZATION, MEMBERSHIP AND WORK

ADDITIONAL FEATURES

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Published the fourth Saturday of every Month

MUNSEY BUILDING

WASHINGTON, D. C.

\$5.00 A YEAR

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